THE Freeman

IDEAS ON LIBERTY

JULY 1958

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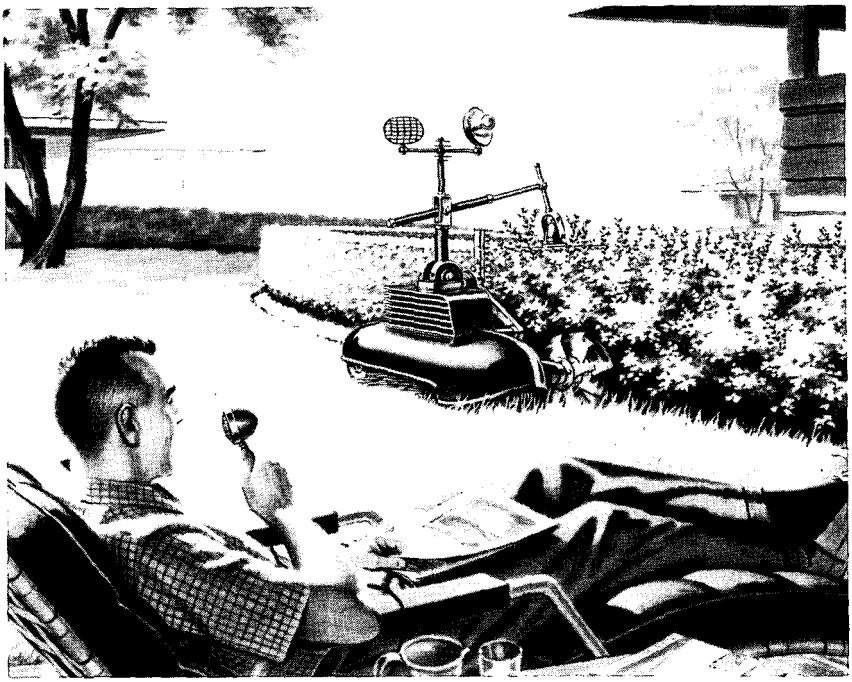

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THE Freeman

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Major considerations in the determination of . . .

EXECUTIVE SALARIES

HANS F. SENNHOLZ

A FAVORITE POINT of attack against capitalism is the impressive height of the salaries of top business executives. Labor union leaders especially tend to be critical of executive salaries and bonuses amounting to a hundred thousand dollars or more. People unfamiliar with the principles that determine wage and salary rates are apt to become envious and receptive to ideas that are hostile to our free economy.

The selection of corporate management confronts stockholders with choices similar to those we all must face in our daily purchase decisions. Should they look for management at bargain rates? Should they shop for medium-priced management, or search for the best possible men who demand top salaries? As in everyday life, the best is often the cheapest in the long run.

The stockholder must hire the men who do the actual work for him. He is aware that the mistakes of corporate executives can consume a large percentage of net income or even eliminate it altogether. On the other hand, the right men may earn large profits and greatly enhance the value of the corporation. Depending on the size of the business, the selection of management may mean a difference of millions of dollars in profits or losses, which emphasizes the importance of the right management.

In the history of the automobile industry the stockholders of dozens of independent companies had this choice to make. Many of them chose management at bargain

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rates – and lost their investments when the companies fell by the wayside. The managerial salaries in those cases, no matter how low, proved to be no bargains after all. At the same time, the obscure and failing Maxwell-Chalmers Corporation hired Walter P. Chrysler who built it into one of the big three of the industry. His compensation, no matter how high, constituted a real bargain to the corporate owners.

Not only the owners but also the workers gain from superior management. Contrary to much union propaganda, the workers' interests are served best under superior management. Wages tend to be higher in a profitable and expanding enterprise than in a failing one. Fringe benefits are higher and jobs more secure. Rejoicing about cheap management can be very shortsighted – and shortlived.

Finally, there are the consumers who, indirectly at least, demand efficient management. Production efficiency makes for better and cheaper products which can meet the pressures of competition.

Corporations Must Compete for Management

The important problem of executive remuneration is to attract and hold the best men. The value of a company is determined by the men who run it and work for it. The corporation need not necessarily pay the total amount which good management adds to net worth. What must be paid to attract and hold the men may constitute merely a fraction of the amount they actually earn for the corporation.

In bidding for managerial services in the executive labor market, each corporation acts in competition not only with all other existing corporations but also with the opportunities for the manager to organize a business of his own. Of course, this competition is reflected not only in salaries but also in pensions, bonuses, and other benefits. And the calculations are in terms of *net* salaries and *net* benefits after taxes.

In order to attract a man from other employment a corporation usually must outbid its corporate competitors. And in order to hold its man the corporation must pay him at least as much as he could earn in other employment.

To move from one employment to another involves a serious decision. It often entails a change of residence which is both inconvenient and costly. The home may have to be sold, perhaps at a loss. Children may have to change schools, and many other problems arise through resettlement. It is obvious that the *net* inducement in the form of higher salary or ad-

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vancement must be great enough to exceed the disadvantages of such a move.

Confiscatory Taxes Have Leverage Effect

Let us assume that a net salary improvement of $5,000 annually will induce an executive to move to a different community to work for a different company. And assume further that the man is in the 80 per cent income tax bracket. Therefore, his $5,000 net raise will cost the company $25,000, with $20,000 going to the government and $5,000 to the executive. If he should be in the 90 per cent tax bracket, the corporation would have to boost his gross salary by $50,000 in order to attract him. The question is whether or not the new executive will add at least the gross amount of his remuneration to the company output. A skilled executive who adds millions to the net worth of his company undoubtedly meets this condition.

The large salary figures often criticized by labor union leaders are the inevitable result of the progressive taxation of large incomes. Without this taxation the net salary that suffices to attract and hold the executive would constitute the total salary. The government share in the executive salary would remain in the company as profit. Of course, such an economy without income taxes would allow rapid capital accumulation and business expansion which in turn would intensify corporate bidding for executives and thus raise their remunerations. But it is doubtful that salaries soon would reach the present figures which are so largely conditioned by progressive taxation.

We are assuming here that capable executives who are the entrepreneurs in a corporation add far more to the output of the business than their own employment costs. This assumption seems justified in the light of corporate experience. Walter P. Chrysler's salary, for instance, undoubtedly was merely a fraction of the net worth he added to the company.

As we have said, competition largely determines how much the corporation has to pay for a good manager. When an executive is hired, his future contribution can merely be estimated. Economic prudence therefore requires that he be paid merely the amount that suffices to induce him to accept employment. This minimum is determined by competition in the executive labor market. Once he proves to be a capable entrepreneur who adds profits to the company, his remuneration tends to go up. For the corporation now must increase his remuneration lest he accept employment with a

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competitor who also recognizes his ability to create profits.

To avoid the leverage effect of confiscatory taxation on executive salaries, often involving tax rates higher than the corporation otherwise would have to pay on profits, many companies resort to forms of remuneration that are taxed at lower rates. For instance, they may grant purchase options that give executives the right to buy from the company a certain number of shares of stock at prices that are lower than the market price. Besides the tax advantage, this method has an additional attraction. The executive becomes coowner, giving him new incentives for doing his utmost in the service of the company.

Company Profits Set Salary Ceilings

The upper limit of an executive salary ultimately is determined by the profits which his employment yields to the company. The executive's productive contribution minus his employment costs constitute this profit on his employment. This explains why an executive is apt to be replaced as soon as another executive can be found whose productive contribution minus his employment costs yields a larger profit to the company. The new man may be more productive for the same money, or equally productive for less money, or in some other way afford the company the maximum profits on his employment, which is the major factor that determines the executive selection.

Of course, these economic principles of the determination of executive salaries are moderated and may be frustrated by personal factors, such as ignorance, inertia, friendship, hopes and illusions, and other feelings.

The Case of Poor Management

We have been discussing superior management and its compensation, but must not neglect the cases of poor management which undoubtedly exist. Inferior management is apt to make costly mistakes and inadvertently inflict losses on the company. It is obvious that the services of such executives are not worth the salaries they are paid. In other words, their productive contributions are worth less than their costs. Prudent corporate owners will dismiss them without delay.

To unseat an inefficient management of a huge corporation is difficult when hundreds of thousands of stockholders are involved. It may be that no one man or group owns enough shares to exert working control. In this case, stockholders seem to have only the choice of selling their securities. Such selling or shunning of shares may result for the time being in

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lower price-earnings ratios and higher yields on the stock. But in that event, various promoters and speculators may see an opportunity for unseating the inefficient executives through soliciting the support of dissatisfied stockholders. They wage costly proxy fights and occasionally succeed in obtaining working control.

But modern interventionism with its confiscatory taxation even hampers this last safeguard for efficient management. Proxy fights are very costly. Without assurance of success they may consume hundreds of thousands of dollars of a man's own funds. Few men still can dare to lose these sums for the sake of corporate control, the eventual fruits of which they must again share with the government. Therefore, proxy fights have become relatively infrequent, and inefficient management may stay in office indefinitely. Thus does interventionist government encourage and perpetuate inefficient management.

Executive salaries ultimately are determined and paid by the consumers. Through buying or abstention from buying, consumers determine which corporations are to earn profits or suffer losses. They determine the remuneration of Frank Sinatra, Marilyn Monroe, and Rocky Marciano. And they also determine and pay the workers' wages as well as the executive salaries at General Motors and U.S. Steel. • • •

IDEAS ON LIBERTY

The Search for Profits

IT IS THE SEARCH FOR PROFITS which governs the whole delicate fabric of capitalist society. In a capitalist economy if mines are sunk and ores and minerals worked, if trains run along the railways and ships plough their way across the ocean, if iron is beaten at the forge and steel rolled at the mills, if fibers are spun and textiles woven at the loom, it is in order that some person or group of persons may make a profit. It is true that they can make a profit only by satisfying a demand; and the search for profits has in the course of centuries wonderfully enriched and widened the life of men.

IVOR THOMAS, *Socialism and Communism*

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THE SUN

This is the most intimate look at the source of earth's energy man has yet had. A camera coupled to a 12-inch astronomical telescope — lifted to an elevation of 81,000 feet by a stratoscope balloon — took this picture of the sun. What looks like little globules are enormous, turbulent, intensely hot gaseous eddies.

Photo by courtesy General Mills, Inc.

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SUN SHINE IN

LEONARD E. READ

THE MANUFACTURERS of air conditioners met in annual conclave. The depression had brought their business to a sorry state. Costs were rising and consumers just wouldn't stand for any more price increases; indeed it was becoming apparent that any pickup in sales would require even lower prices.

Few of the members had any awareness as to the real cause of their difficulties: governmental intervention. They didn't quite realize that overextended government was financing itself by increasing the volume of money and credit, resulting in lower money value and thus in higher costs. They didn't read any significance into the fact that the dollar had lost 51 per cent of its purchasing power since 1939.

No, these producers of conditioned air were blaming other influences for their troubles. Most of the talk dwelt on the evils of foreign competition with its "cheap labor." "How on earth," they queried, "can we who pay $3.00 an hour for labor expect to compete with those foreigners who pay only 39¢ an hour for labor?" This line of reasoning made it more and more apparent to all that the ideal solution was to secure a tariff to equalize the cost differentials. A law to establish "competitive fairness" was the sense of the resolution about to be drafted.

Then came an interruption in the day's deliberations. "Tarry a moment," cautioned an old member. "Our greatest competition isn't coming from these foreigners with their low wages. The greatest competitor of all isn't paying a cent for wages. Gentlemen, it's Nature herself, the biggest supplier of fresh air ever known to man, that must command our attention. Let me show you how we can turn the law to our own and everyone's advantage. Simply make it illegal for any home, barn, factory, auto, airplane, truck or locomotive cab, or any other enclosure to use any air not processed by a mechanical air conditioner. Reflect, please, on the merit of this proposal. Our industry will flourish and the increased demand for workers, for steel, for motors, and for thousands of other items will be on an unprecedented scale. Why, it may take a million skilled technicians just to service our ma-

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chines. I implore you not to waste time on such trivia as a few minor foreign competitors. Let's go at this thing in a big way. We can make the automotive industry look puny if you will but follow the course I commend."

The bankers gathered in annual conclave. They had lots of money to loan but borrowers were scarce. The bankers were concerned about competitive interest rates being too low for a "fair profit." The solution seemed obvious. Just pass a law setting a "floor" under interest rates. Make it illegal for anyone to charge or pay less. Overlooked entirely was the government's near-complete control of the money market and of their business. And, not a word was said about the special privilege extended by government to credit unions and the outright loaning by government itself. Too touchy a subject!

Just as they were about to petition the Congress for a price control on loaned money, the dean of the financial fraternity rose to his feet. "Bankers, listen to my counsel. You are overlooking the real offenders. It's not the folks who are running cut-rate money shops that should concern us. Yes, one-half or one per cent off the going rate here and there, but that's peanuts. I tell you the culprits are of a different breed. They're the givers, the ones who not only charge no interest rate at all but, gentlemen, they don't even want their capital returned. Outlaw giving! Make illegal these gifts totaling hundreds of millions of dollars annually to schools, colleges, churches, charities and then we'll have an active market for money. Demand for money will exceed the supply. The borrowers will be competing to get our money instead of our competing to loan it. Need I say more?"

The light and power people were assembled in annual conclave. Costs were rising and the government commissions just wouldn't permit any more increases in rates. The people, pinched by government-induced inflation, had the commissioners on the political hot seat. The commissioners didn't dare to do other than refuse the light and power petitions. Faced with this dilemma, the delegates saw no alternative but to increase the volume of their sales. But how?

Then came the answer from the cleverest among them. Said he, "The candlemakers we have put out of business.[1] And the electric lamp has for all practical purposes

[1]The idea for this essay came from *The Candlemakers' Petition* by Frederic Bastiat which appeared in THE FREEMAN, March 1958.

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replaced the gas lamp. We can't make any substantial ground in these directions. That competition didn't amount to anything, anyway. Our real competitor is old Sol, the Sun itself! The way to handle this competition has already been pointed out to us. I know of a modern hotel that hasn't a single window and already there are many factories without windows. All their light is electric light. Simply pass a law shutting out all sunlight from the interior of all structures, homes as well as hotels, stores as well as factories. Do as I suggest and we're in business."

That All May See

It should not be necessary to point out that the above accounts are at once fiction and satire. Nor would it be necessary were it not for the fact that millions of Americans from all walks of life are sponsors of this very brand of protectionism. Let not anyone laugh at the absurdity of these illustrations who supports subsidies to farmers or "social security" or TVA or who turns to the law to lessen competition in any of countless forms or who stands for featherbedding and any of the other compulsions practiced by labor unions. The above are but caricatures of things we practice, magnified and presented in the nude for easier viewing.

Take the case of keeping out the sunlight. What is this light? It is but radiant energy supplied by the sun. The earth gets its energy from the sun; therefore, any product in its natural state or as reshaped by man is as much from the sun as is the light by which we see. And candlelight, gaslight, electric light are as much from the sun's radiant energy as is daylight.

We see by the sun's radiant energy and we eat and keep warm and clothe and otherwise embellish ourselves by it. It is no more absurd to keep the light of the sun from shining into the lives and environment of human beings than it is to inhibit and obstruct other manifestations of its radiant energy from flowing into their lives. The fact that these other forms may take the shape of bicycles or facial tissues or soap or corn flakes, by whomever processed, does not alter the morality of the matter nor warrant the feathering of one's own nest at the expense of others.

Protectionism is the obstructing of the sun's radiant energy and/or creative human energy in their flow to those who wish them. If protectionists were precise in their petitions to government, their res-

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olutions would read something as follows:

WHEREAS, we are heartily in favor of the sun's radiant energy by which mankind is permitted to exist on this earth, nonetheless, some of this energy is flowing through the hands of competitors into the lives of people more advantageously than when flowing through our own hands;

THEREFORE, BE IT RESOLVED that the sun's radiant energy be restricted from flowing into people's lives to whatever extent is necessary to keep us in business.

To weigh the consequences of protectionism, imagine its substitution for the uninhibited travel and the free trade in goods and services that now prevail between the abutting states of Illinois and Wisconsin. Tariffs, quotas, and embargoes would be invoked, and custom and immigration officers would populate the border. Constabularies would be necessary to enforce the edicts. The people would begin growling at each other and, sooner or later, the constabularies would have a go at it to establish "justice" and to make the states "safe for democracy." Probably, at some future date, the government of the more prosperous state would tax its people that gifts might be made to the government of the "backward" state not only for the purpose of keeping it "from going communist" but to aid it in buying more of the prosperous state's goods and services. And, surely, there would evolve a class of "economists" who with slide rules, charts, and statistics would "prove" the propriety of this "foreign aid" hokus pokus.

Bastiat was right in asserting that "when goods do not cross borders, soldiers will." Or, to state our own case in positive terms: When we forswear protectionism as a principle, we will be able to forego soldiers as a necessity.

Man's higher role, it would seem, is not to use force to board up either windows or borders. It is, instead, to aim his genius at helping the sun to shine into the lives of all peoples. When we allow the free, uninhibited flow of all creative and radiant energy, we shall aid the true interests of all, for the true interests of all are harmonious. • • •

AMPLITUDE

There is no limit to the sky;
And Nature holds no trace,
Nor check-rein on Her Bounty
More than God has ended Space.

'Tis only man who limits things;
His love, his wealth, his mind;
To choose instead, a penury,
A stringence hard to find.

He digs around until he strikes
The makings of a mess;
For only man has figured out
That plenty comes from less!

ANN TERRILL

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TWILIGHT of the Republic?

CIVILIZED LIFE is not possible without adequate government. Yet government itself can be the greatest of social evils. The historic struggle of man to be free has been essentially an effort to subdue the State.

His first notable success came with establishment of the United States of America – a decentralized republican form of government under a Constitution designed to protect the rights of the people, a system so arranged that its powers could not be used to exploit or enslave them.

It was undoubtedly the greatest political advance in the history of the world. And the Republic so founded – for a century and a half – was a model of freedom for the world, and a haven of opportunity for its citizens.

It seems incredible that a people so blessed should allow either the word or the spirit of that great Constitution to be debauched or destroyed. But, if we face the truth, we must admit that attempts to destroy it are gaining force while the majority of the people stand idly by, either in apathy or frustration.

Samuel B. Pettengill, former Indiana congressman who addressed two civic groups in the Palm Beaches recently, raised the vital question of whether the American people were not, in fact, facing the "twilight" of their Republic. And he offered documented evidence to indicate that they are.

Why? Simply because the American people have abandoned the system of government which made their nation outstanding. They have allowed themselves to be led, bribed, conned, frightened, cajoled, and pushed away from a system of individual initiative and free enterprise into the wasting disease that is the "welfare state."

Some also call it the "nursemaid state," but both terms are synonymous with socialism – the gospel of Karl Marx.

It Has Happened Here!

Socialism in America? It can't happen here! – we have been told, and are still being told, by many of our political leaders. But, says

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Mr. Pettengill, it not only can happen here – it HAS happened!

Government ownership of industry is socialism. And when the federal government of the United States takes 52 per cent of the profits of a corporation in the form of income taxes, it "owns" – in effect – 52 per cent of the shares of that corporation. It need not actually own the cow, if it gets the milk – and it does.

If you have any income, the government owns a "share" of you, too. Depending on the amount of your earnings, the federal government will demand from 20 per cent to 91 per cent of it to finance its ever-expanding operations.

This income tax not only is evidence of the existence of socialism in America; it is the crack in the Constitution through which socialism slithered into the "land of the free," and it is the trough at which "big government" swells and grows fat.

History may record that the "twilight" of the American Republic began in 1913 when the Sixteenth Amendment to the Constitution was adopted, authorizing the federal government to levy an income tax, "from whatever source derived without apportionment among the several states, and without regard to any census or enumeration."

That amendment was the first grant of unlimited power ever conferred on the federal government. There is nothing now in "the law of the land" to prevent its being used to legally confiscate ALL of incomes over a certain amount – or, for that matter, ALL incomes.

Enforcement procedures of this law have reversed the basic American principle that man is presumed innocent until proven guilty. Anyone suspected of evading payment of federal income taxes is presumed to be guilty, until he can prove his innocence – if he can.

And perhaps even more important, in its effect on the American system of government, the income tax law has provided the weapon by which all Constitutional limits on the powers of the central government may be wiped out.

It is axiomatic that "the power to tax is the power to destroy." Marx recognized it. In his *Communist Manifesto* he advocated the steeply graduated income tax as an instrument for social revolution.

The Great Tax Swindle

It is being used as such an instrument in these United States. Says Mr. Pettengill: "Modern governments . . . tax away the earnings of their people, and then dole some of it back to them in subsidies, gifts, grants in aid, and the award of huge government

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contracts. By this process they become the masters of men, and cease to be their servants."

The historic relationship is reversed. Instead of government coming to the people for its support, the people come to the government for their support. The great "power of the purse," by which representatives of this nation's taxpayers once held the executive branch in check, has passed into the hands of a political Santa Claus. And this Santa Claus does not carry a bag – the taxpayers are left holding it.

The more money a government has to spend, the more it spends; and the more it needs – to consolidate its power over those who must come to it as beggars. In the name of "emergency" and under increased demands for more and more "benefits," the government lives beyond even its swollen income, amasses an enormous debt. And, imbued with the philosophy of the Welfare State, the government tends to become of, by, and for pressure groups.

The promise of cradle-to-grave security weakens economic incentive, tends to make men financially irresponsible and reduce them to the moral level of dependent children. Why should a man struggle to provide for himself, to lay something by for a "rainy day" to protect his family from want, when a paternal state promises to do those things for him?

The desire for "security" replaces the desire for opportunity, which is the mark of a vigorous, liberty-loving people. But even though the citizens of a Welfare State give up their liberties one by one for the protection of a paternalistic government, where is their security?

The Death of Security

The tax-and-spend program of such a government is inevitably accompanied by its twin – inflation. And inflation is the death of security.

Escalator clauses in labor union contracts give a worker a certain precarious security during his productive years. But what happens to his life insurance policies, his government bonds, his bank savings, his pension, his social "security" benefits – on which he must depend to provide for the sunset years?

A big chunk of them are stolen by inflation – stolen by a government whose policies breed and foster inflation. It has been estimated that during the period from 1945-1951, inflation caused purchasing power losses of $123 billion on savings bonds, time deposits in banks, and life insurance policies alone. That is approximately 65 times the losses incurred

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by depositors in banks in the years 1921-1933.

One of the surest ways of wrecking a nation's economy, Mr. Pettengill pointed out, is to debauch its currency. History is replete with instances of this tragedy. For a government to embark on a course which will rob the thrifty, the aged pensioner, the widow, and the orphan by planned inflation is just as immoral as armed robbery on a dark street.

That is what happens when taxation and government spending get out of control, as they obviously have in the United States today. The trend has gone so far that neither Congress nor the people know the full truth about our fiscal affairs. And neither Congress nor the people have control of them. This function has been taken over by the Washington bureaucrats who now wield more power – through their control of where and for what tax monies will be spent – than either our elected representatives or the President.

"Night" Need Not Fall

Certainly all of this sounds like the "twilight" of our Constitutional Republic. But "night" need not fall if Americans awaken to their duties and responsibilities.

Through a program of education, the something-for-nothing philosophy that has been spreading its blight over this nation since the days of the "New Deal" can be shown in its true light, and the principles which made America what it is brought back to respectability.

Our youth – yes, and many of their elders – must be taught the meaning of the Constitution; they must be taught American history; and they must be taught basic economics. In short, they must be taught Americanism, instead of the foreign "isms" that have already made such dangerous inroads.

It CAN happen here!

It can happen that our great Charter of Freedom, the Constitution of the United States of America, be restored to its original purity and strength. And it can happen that freedom and opportunity will be thus reborn to bless our children, and their posterity.

But it can happen only if many Americans, like Mr. Pettengill, refuse to "give up the ship." • • •

Editorial from *The Palm Beach Post-Times*, April 13, 1958.

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WHY THE GOVERNMENT CANNOT CONTROL

THE BUSINESS CYCLE

ANTHONY M. REINACH

IT IS a widely accepted theory that we can rely on the government, through manipulation of the money supply, to alleviate or correct the excesses of the business cycle. Nothing could be further from the truth.

Unlike the doctor who can quite accurately predict when a dose of medicine will affect his patient, the money managers have no way of knowing when increases or decreases in the money supply will affect the nation's economy. In fiscal matters, the extent of the time lag between cause and effect is virtually impossible to predict. The reasons for this are twofold:

1. *People cannot be forced to use money.* Since 1944, there have been no appreciable excess bank reserves, which means that the banking system during this time has been able to lend and invest all its available funds. But not so in the preceding decade. From 1933 through 1943, except for a few months during the 1936-37 boomlet when reserve requirements were boosted quite sharply, there were always excess reserves – money adjudged superfluous in terms of the prudent economic requirements at the time. In January 1941, after nearly eight years of sharp expansion of the supply of money, almost $7 billion of it – a record high – lay dormant in the banks. In other words, though this money had been pumped into the economy, it was not being used when deemed desirable.

2. *People cannot be forced to spend money at a particular rate.* The rate or speed with which people spend money is known as "velocity," and refers to the number of times a year money changes hands. One indication of velocity is in the figures published by the Federal Reserve showing the annual turnover of demand deposits.

Mr. Reinach's insight into economic affairs is well-known to Freeman readers.

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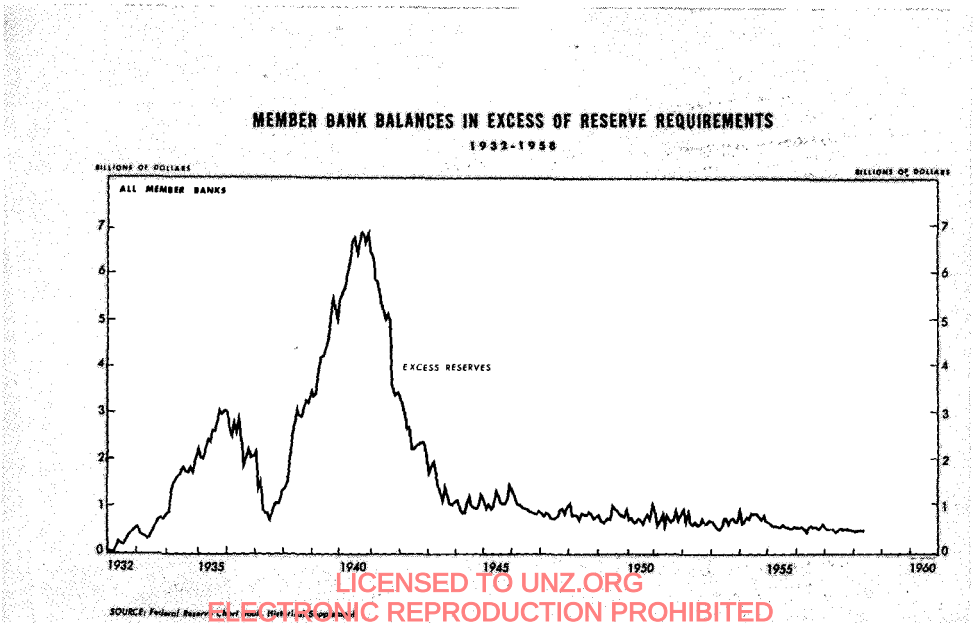
For instance, in New York City, the commercial and financial center of the country, the current velocity is around 55. Since demand deposits turn over less frequently in other parts of the country, the national average is perhaps 40. If we include dormant cash and time deposits, 20 would be a minimum estimate for the current national average velocity of our entire money supply.

The current money supply, including bank deposits and currency, is about $220 billion. Multiplying that figure by a velocity of 20 gives $4,400 billion as the amount of money work done in a year. It is apparent that a mere velocity reduction from 20 to 19 would more than cancel out the anticipated effects of almost $12 billion of additional "corrective" money. The reverse also holds, so that an increase in velocity would give just that much additional push to the effects of any expansion of the money supply.

If the velocity of money could be held constant, it would be easier



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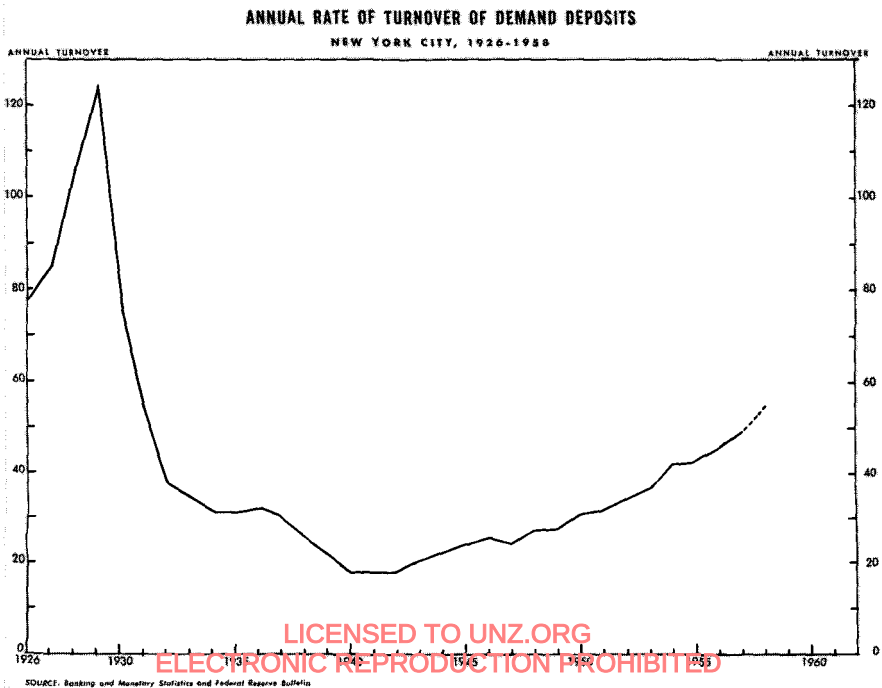
to predict how changes in the quantity of money would affect the nation's economy. But the velocity is far from constant. Because it is highly sensitive to public psychology, it traditionally resists arbitrary regulatory influences.

Demand deposit figures for New York City, adjusted for seasonal variation, reached a peak velocity of 156.8 in October 1929. In defiance and to the dismay of pump-priming experts, it then went into a steady decline which lasted 11 years and 3 months. A low in velocity of 16.3 was reached in January 1941 — the same month in which excess bank reserves attained their highest point.

For the past 17 years, the velocity of demand deposits in New York City has been climbing steadily to its current level of around 55. Another trend reversal could render injections of "corrective" money about as effective as a platoon of soldiers charging a swarm of mosquitoes. • • •



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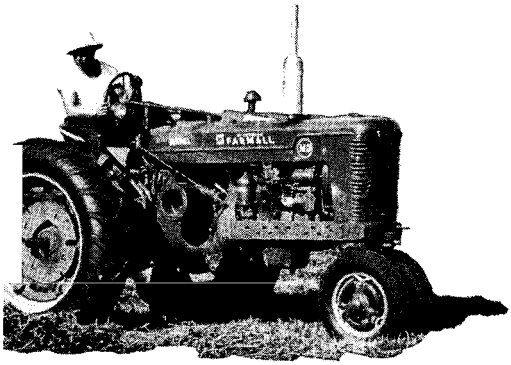

A. Devaney, Inc., N. Y.

WILLIAM H. PETERSON

Well, I didn't plant any wheat in my wheatfields, and I didn't plant any corn in my cornfields, so, all in all, I ought to have a good year this year.

Caption on a *New Yorker* cartoon

REVOLUTION

DOWN ON THE FARM

AT THE TURN of the twentieth century, the now familiar tractor had yet to make its appearance on the American farm. The engine was the horse and the mule – and, in good measure, the farmer himself. Before long the first tractors made their appearance: steam or gasoline-driven, big, slow, awkward, wheezy, given to frequent mechanical failures, good for turning belts and plowing flat stretches, and just marginal at that. Like its mechanical brother on the road, it was not uncommonly greeted with "Get a horse."

Today's tractor, with such standard equipment as headlights, tires, self-starter, and perhaps fluid drive and power steering, has all but displaced the horse and mule. It's a compact, efficient, quick-moving, and highly maneuverable power plant. Coupled with attachments, it not only can perform the usual field chores but it can also pump, lift, pull, carry, dig, push, and level. With a generator attachment, it provides electricity for blowers, portable saws, arc-welding, and so on. With a pumping attachment it can pump water and spray insecticides and weed-killing chemicals. There are now better than 4½ million tractors on American farms – an average of nearly

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one for every farm. There are also on the farm the other horse replacements: 4¼ million automobiles, nearly 3 million trucks.

Technological Improvements

Just this facet of "horse-power" mechanization gives an inkling of the technological revolution down on the farm. This revolution embraces not only mechanical wonders, but also new animal husbandry techniques, planting methods, animal vaccines, fertilizers, feeds, seeds, plant hormones, weed killers, insecticides, sprays, washes, and even radio-isotopes. In 1956, to cite an example, the American farmer used 71 per cent more fertilizer on his fields than he did in 1948 and better than four times as much as he used in 1930.

As a result, per-acre yields are showing an almost certain gain in productivity year after year. As a further result, lambs and poultry, beef and dairy cattle, pigs and calves are getting bigger faster and – with the exception of layers and dairy cattle – to market sooner. Chickens are laying more eggs (Terramycin, for instance, boosts egg production from 6 to 37 per cent). Cows are giving more milk. Hogs are giving more meat and less fat. Female farm animals of breeding age accounted for an average of 38 per cent more offspring per animal in 1956 than in 1930, a dramatic result of superior hygiene, better feeds and injections, and better breeds.

In his *Atomic Energy in Agriculture*,[1] William E. Dick, a British research biologist, shows how technology in radio-isotopes and atomic energy, as yet in its infancy insofar as farming is concerned, already can destroy and control insects and plant diseases, speed up growing cycles, and open up cross-fertilizations and mutations for plant varieties and yields hitherto impossible. Thanks to nuclear science alone, food spoilage before long may be reduced to a point of negligibility, and cheap, wholesale preservation of now perishable foods soon may become possible.

The technological revolution is seen in the statement of Assistant Secretary of Agriculture Earl L. Butz in 1955:[2]

"In the 15 years since the beginning of World War II, American farmers have increased their total production by 35 per cent, with no increase in acres."

This increase was accomplished despite a drop of 28 per cent in the number of farm workers during that period.

The revolution is seen dramatically in cotton production. Today there are about 850,000 cotton

[1] New York: Philosophical Library, 1957.
[2] *Wall Street Journal*, July 3, 1957.

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growers, just about half the 1,600,000 cotton farmers of 1940; cotton acreage is also markedly down. Yet cotton technology, along with some shifting to more fertile lands, has almost made up for the heavy cutback in cotton farmers and cotton acreage. Per-acre yields have climbed to 400 pounds of cotton in 1956, well up from the 250 pounds in 1940 and 200 pounds in the early 1930's. Department of Agriculture figures show the following improvement for other major crops during the 28-year period from 1928 to 1956:

Yield Per Acre	*1928*	*1956*
Corn (bu.)	25	41
Wheat (bu.)	14	19
Tobacco (lbs.)	771	1333

Said President Eisenhower in his 1958 farm message to Congress:[3]

The rapid changes taking place in agriculture are largely the result of a major breakthrough in agricultural science and technology. In recent years agriculture has been experiencing a veritable revolution in productivity. A century ago, an American farm worker fed himself and three others. Today he feeds himself and twenty others. A century ago, our population was 82 per cent rural. Today it is only one-third rural and only 12 per cent of our population actually live on farms. Farm production per man hour has doubled since 1940. There has been more change in agriculture within the lifetime of men now living than in the previous two thousand years.

The President's point on the doubling of farm productivity per man hour since 1940 is further emphasized in the fact that this increase is as great as the total increase in the 120 years between 1820 and 1940. Today a farmer with modern equipment can plow one acre in 48 minutes as compared to 2.6 hours in 1920. He can dig 60 post holes in 2.5 hours as compared to 10 hours in 1920. He can harvest and crib one acre of corn in 1.7 hours as against 7 hours in 1920. Today he can do by machine what only recently he did by hand – bale hay, shuck corn, pick cotton, chop forage, plant seed, cut grain, and fertilize land. A mechanical cotton picker replaces 40 to 80 hand pickers. A potato digging machine can outpace 17 men. A green-bean picking machine is equivalent to 50 manual pickers. A mechanical celery picker not only does the picking but also packs the celery in cartons on the field.

Fewer Farmers — More Output

The big economic upshot of this revolution is that bigger farms with fewer workers are feeding more people. In 1930 there were 12,497,000 farm workers, in 1940

[3] *New York Times*, January 17, 1958.

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– 10,979,000, and in 1956 – 7,869,000, including farm families and hired workers. Technology, in a sense, forces up the size of farms – so as to get greater utilization of farm machinery and reduce per-unit overhead. In 1940 the average farm was 174 acres, in 1950 – 215 acres, and in 1956 – 242 acres. In 1935 there were 6,800,000 farmers (including owners, part-owners, and tenants), in 1940 – 6.1 million, in 1950 – 5.4 million, in 1956 – 4.8 million.

The farm technological "breakthrough" – to use President Eisenhower's word – partially accounts for the magnitude of today's "farm problem." The tractor and the other farm machinery has all but eliminated draft animals and their feed. This development alone has enabled American farmers to divert 55 million acres to human food production. This fact, plus the soaring per-acre yields and the continuing high government farm price supports, account for the burgeoning Commodity Credit Corporation hoards. In fact, price support payments almost tripled in the four years of President Eisenhower's first administration as compared to the entire twenty years of the New and Fair Deals – $2.9 billion between 1953 and 1957 against $1.1 billion between 1933 and 1953.

The price supports boomerang against the American farmer in ways other than cutting back domestic and foreign markets through discouraging demand. Price supports hold an umbrella over foreign agricultural producers and domestic synthetic producers – and thereby spur competition.

Competition from Synthetics

Consider the inroads of synthetics, themselves constituting quite a technological revolution. Until 1930, fibers came almost wholly from natural sources – cotton, wool, flax, hemp, and silk. Soap was made from agricultural oils and fats. Adhesives originated from starch, glue, and plant gum. Luggage and shoes were made almost always of leather. Paints originated from vegetable oils. Alcohol was made from molasses and corn.

But this position of agriculture was not to last. In its interim report, issued in 1957, the U.S. Commission on Increased Industrial Use of Agricultural Products, a body created by the 84th Congress, notes that farm fibers have lost 45 per cent of their former markets, to synthetics – rayon, nylon, dacron, orlon, acrilan, and so on. Synthetic detergents have taken over two-thirds of the total household soap market, thereby reducing the need for the farmer's in-

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edible tallow and grease. In 1950, requirements for cattle-hide leathers could not be met from domestic sources and imports were necessary. But by 1955 cattle hides were in surplus, and many hides had to be exported to less remunerative markets overseas. A big reason: 62 per cent of all domestic shoe soles in 1956 had materials other than leather in them. Luggage tells the same story; plastics, synthetics, adhesives, alcohol, and paints are also increasingly made from nonfarm sources.

The Commission on Increased Industrial Use of Agricultural Products provides a lesson in practical politics. The Commission is a "safe" answer to farm surpluses. It is noncontroversial. The farm bloc could more simply meet its foreign and synthetic competition and actually break the "farm problem" through the simple device of lowering or, better, abandoning price supports, and wiping out all marketing and acreage controls. In short, return to the free market. This is a long run proposition, however, and elections are always held in the short run.

Technology and politics don't mix. • • •

IDEAS ON LIBERTY

Ask the Man Who Farms One

The men who know farming best are not nearly as keen for federal subsidies as the farm-bloc congressmen are.

A nationwide poll of all kinds of farmers conducted by *Farm Journal*, No. 1 farm monthly, among its readers shows:

Half of all farmers in the United States want the government to pull out of agriculture lock, stock, and subsidy.

Another 11 per cent want less government help than they are now getting.

In the South, always an enthusiastic advocate of high price supports, more than half want the government to get out.

In the Midwest, 43 per cent are against any government help.

The poll is based on the opinions of 4,000 farmers which *Farm Journal* says is a representative sampling of our five million farmers. Maybe if their wishes were heeded, we could afford more education — and research.

Editorial in New York Herald Tribune

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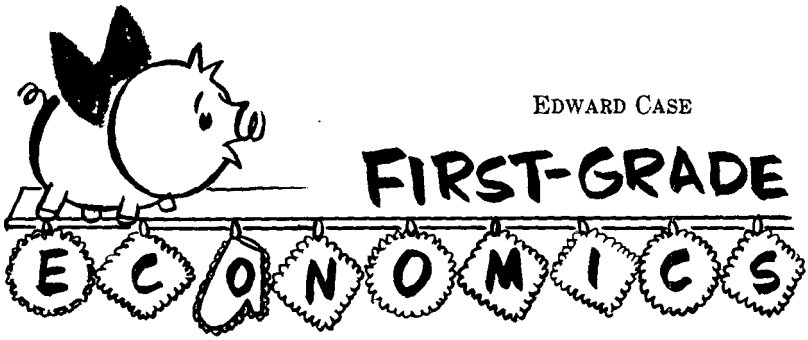

EDWARD CASE

SUSIE is six years old. She wants to be an actress. She asks questions, not all the time, you understand, but only when she is awake; and because we are her parents, her Mommy and I have to answer them. Or try to.

Mommy and I went to see Sir Laurence Olivier in *The Entertainer*. The next morning Susie demanded to know what the play was all about. Since even the author had some difficulty in making this clear, Mommy can't be blamed for a free interpretation. "Well," she offered, "it was about an actor who had a lot of troubles."

"What kind of troubles, Mommy? Was he sick?" Susie, having recently had the measles, knows all about sickness.

"No-o-o. He was in trouble because, well, for one thing, he couldn't pay his taxes and he was afraid of going to jail."

"What are taxes, Mommy?"

Mommy explained.

Susie was aghast. She reached possessively for her piggy bank which contains various quarters earned for excellently woven potholders together with other capital less laboriously acquired, and said, with that ultimate degree of vehement shock which only scornful little girls can summon up: "Do you mean that they take your money away from you and put you in jail if you won't give it?" Susie tightened up her lips and was plainly prepared to resist. She always gives trouble about swallowing her medicine.

"Yes, they do."

Susie thought and said that this was a terr-ee-bill idea. Her parents were discretely silent. Put just that way, it is difficult to object.

The conversation, like all long sprints with Susie, took a turn.

"Is Mr. Olivyer a better actor than Noel Coward? I bet he isn't. Oh, I'd love to be an actress with Noel Coward and wear just beautiful clothes."

Mr. Case, an executive of a small family business in New York, maintains sideline activities in journalism, editing, and publishing.

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Here one must explain that when Susie had the measles, Noel Coward pulled her through. To be strictly accurate, it was a recording of his that did it. It was the only thing that seemed to relieve the itching, and Susie played it constantly. It was not only for Susie's sake that we were glad when the measles went.

"That's a matter of taste, darling. They're both fine performers. But, you know, you can wear beautiful clothes and sit in the audience. You don't have to be on the stage to wear them."

"Ye-e-e-s-s, but there's a whole mob of people in the audience and only a few people up on the stage."

Aha, we thought, Susie is an individualist. That she is rugged we had learned already.

Susie is always curious about where people live.

"Where does Noel Coward live, Mommy?"

"I think he lives mostly in Jamaica now, dear."

"I thought he was English and lived near the Queen. Where is Jamaica?"

Mommy took down the globe and showed where Jamaica is.

"What kind of a place is Jamaica?"

Mommy said it was sunny, with beautiful beaches and flowers.

"But why does he live *there*, instead of England? Don't they have beaches in England?"

Mommy said she thought it had something to do with paying taxes and not having to pay them.

"Taxes!" Susie was aghast again. "You mean *Noel Coward* has to pay taxes, too?"

Mommy said he does.

"You mean when I am an actress, they are going to take my money away or put me in jail?"

Mommy nodded and, really, it did seem a shame.

Susie pondered darkly for a moment, then stamped her foot decisively. She made up her mind. "Then I won't be an actress. I'll just go to Jamaica and sit in the sun." • • •

IDEAS ON LIBERTY

Let Facts Be Submitted

He has erected a multitude of New Offices, and sent hither swarms of Officers to harass our people, and eat out their substance.

Declaration of Independence, July 4, 1776

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A. Devaney, Inc., N. Y.

Self-help is a key to progress in any competitive situation.

The Independent FIGHTS BACK

JULIAN H. HANDLER

TWO DECADES AGO, the friends of the independent food merchant were ready to serve as his pallbearers. The corporate chains were making such tremendous growth that proposed legislation to tax them to their death seemed to be the independent's last hope. The plan failed and the independent was left to stand or fall on his own merits in the battle for survival under free competition.

What has happened since is startling indeed, in view of the tremendous odds that were then seen as stacked against the man who wanted to operate his own grocery market down the street from one owned by a big corporation with the comparatively limitless financial resources that could run him out of business.

Yet today, as the result of resourceful leadership and progressive action at all levels, the independent food merchant still accounts for the lion's share of total grocery store sales, more than 60 per cent of the total.

This accomplishment has been effected through a revolution-within-a-revolution in marketing. Fundamental, comprehensive, and dynamic changes have completely altered the nature of the American food distribution field during the last 20 years. New efficiencies, with self-service in the forefront, have sharply reduced gross margins. Merchandising has taken on new forms. Attractive and sanitary packaging has replaced the cracker barrel and the tub of butter. No longer must the housewife go from grocery store to bakery to meat store to dairy to fruit store in order to purchase all her family's food needs. The supermarket has become the mecca for convenient one-stop shopping.

Mr. Handler is an editor and author on food marketing and merchandising.

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The change has been so complete that most of us have forgotten what grocery marketing was like not too many years ago. The scope of this revolution in distribution can perhaps best be grasped by visualizing the average food store of a quarter-century ago and recalling how it operated, while you stand in the middle of a supermarket – "one of the miracles of America," in the words of a visiting monarch last year.

Competing with Chain Stores

The emergence of the independent as an efficient and successful businessman under these totally new conditions constitutes the revolution-within-a-revolution that has equal significance in its social and economic aspects. To appreciate fully the extent of the climb of the independent from near-oblivion, it is only necessary to examine marketing conditions as they existed in 1938.

The chains had been gaining an increasing proportion of the total business in many retail fields. They had many natural advantages of bigness. They commanded great total buying power that could be wielded to effect favorable purchases. This, plus efficiencies in operations that stemmed from their size, enabled the chain stores to offer measurably lower prices. Their corporate resources opened the way to the most desirable locations and financed the building of attractive markets. The chains could advertise economically since each ad served many stores; to the independent, comparable advertising for his one store was out of reach. Competent headquarters personnel for the chain could specialize in each phase of market operation, providing a team of experts that could not be matched by the lone wolf.

These built-in competitive advantages of the chain appeared to be insurmountable for the independent. Since the small merchant was regarded as basically important to the American economy, and since his position seemed politically exploitative, a campaign was started to turn the tide.

Tax legislation was introduced in many states and ultimately in Congress. The intent of the federal bill was unmistakable. If it were enacted, the A & P, which then had 12,000 stores in 40 states, would have been required to pay a tax of $471,000,000 out of its earnings that year of $9,000,000. The Kroger Co., with 4,000 markets in 19 states, would have faced a bill of $71,000,000 though it earned only $3,700,000. The friends of the independent showed their belief that the only way they could keep him alive was to tax his competition out of business.

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Heated controversy raged over the tax plans. The side of moderation was typified by the views of the Secretary of Agriculture, who noted that some regulations might be necessary to maintain fair competition where chain practices were generally detrimental. "However," he added, "we think it would be unwise and unnecessary to give up the economies which have been brought about by chain store distribution in order to prevent certain practices which may not be in the public interest."

Although the proponents staged a vigorous battle in support of the chain tax principle, the movement scored only minor successes and eventually was abandoned.

Without Government Intervention

Denied this legislative support, how did the independent food merchant manage to hold his position in a highly competitive field against such heavy odds? How did he survive the intense pressure of big chains? The key to the independent's story of progress is cooperation. By two principal methods, the merchant associated with other merchants in the common cause of survival.

One system has been built around the voluntary group, sponsored by the wholesaler. The wholesaler supplies the initiative and the program for coordinating independent market owners in one cohesive operation. They are given a common name, so they can advertise and merchandise collectively and enjoy other benefits similar to those that the individual chain store derives from being part of a corporate chain organization.

The other principal form has been the cooperative. In this arrangement the market operators, on their own initiative, develop a joint organization that owns its warehouse and hires a manager. Each market owner has shares in the company and any amounts exceeding the operating costs of the warehouse are distributed among the holders.

While the ownership and some of the procedures vary, the two systems have much in common — particularly their function of keeping the independent market operator a going and successful business.

The new concept in marketing is symbolized by a statement in an annual report issued this year by one of the nation's larger wholesalers, which listed its sales as over $100,000,000.

"Food distribution has undergone major changes during the past ten years. Our role as wholesale supplier is radically different from ten years ago. Our planning and thinking is devoted almost en-

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tirely to the continued development of modern retail food facilities in prime locations for qualified, proven operators," the annual report noted.

In arrangements such as these, the retailer-owned cooperative and the voluntary-group-sponsor both provide most of the headquarters services that are performed by chain main offices. Except under special conditions, however, the independent retains ownership of his own market. In some cases, with large supermarkets the order of the day, the private owner may have an investment of around a quarter of a million dollars in his facilities.

By being a member of such an organization, cooperative or voluntary group, the independent can serve his customers under conditions that enable him to be fully competitive with chain store neighbors. Since the members of the organization concentrate their business with the single distributor as much as is feasible, the wholesaler can operate economically, on a high-turnover basis, the same as a chain warehouse. Similarly, the wholesaler's selling costs are reduced since the loyalty of the affiliated retailers makes it possible for him to eliminate expenditures for salesmen. The savings are passed along to the retailer in lower cost of merchandise, which in turn enables the retailer to price his food products at the level of the chains.

In effect, this is enlightened selfishness at work. The wholesaler works to reduce his costs, so he can supply the retailer at a lower price so the retailer can sell at a price fully competitive with chain competition. If the wholesaler did not do this, and instead sought his profit through higher pricing, the retailer would ultimately go out of business and soon thereafter so would the wholesaler. Similarly, the retailer concentrates his business with his principal wholesaler to help the wholesaler lower his costs and thus set the whole cycle into action.

Integrated Services

There are adjuncts to this basic marketing policy that further enhance the status of the independent market. Effective group advertising programs are conducted on the same basis as chain advertising. Joint headquarters provide technical assistance that independents, singly, could not afford.

The degree of integration of the retailer with his source of supply is indicated by the fact that headquarters in some cases keeps the books for the market owners. In addition, headquarters will seek out new choice locations for markets. If the retailer affiliate is not

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sufficiently capitalized to gain consideration as a tenant, the wholesaler may put its own name on the lease and help the retailer finance the undertaking.

" 'Retailer-mindedness' has become a by-word the wholesale fraternity is justly proud of," R. L. Treuenfels of the National-American Wholesale Grocers' Association reported to the most recent International Congress on Food Distribution in Rome.

In retrospect, the campaign for chain taxation may now be considered as having been, in the long run, a liability for the cause of the independent. This could be true in that it suggested that the independent was not a fully efficient distributor, but instead needed a brake put on his competitor as an equalizer. Such thinking may still carry over among financial institutions, for example, whose assistance in expansion might be helpful at this time. This may be so even though the character of the industry has changed completely.

Furthermore, the independent has demonstrated that resourcefulness and cooperation are surer ways than government intervention to sustain progress and prosperity under the American system of free competition. • • •

IDEAS ON LIBERTY

Strength Through Struggle

THE SOMETHING-FOR-NOTHING IDEA grows out of failure to see the purpose behind the struggle for existence. The fullest possible employment of one's faculties is what makes for strength of body, of character, of spirit, of intellect. Nonuse of faculties leads to atrophy. The story of the wild duck that joined the domestic ducks, was fed, but later couldn't fly above the barn; of the gulls that fattened up at a shrimp plant but starved when it shut down; of the cattle that became accustomed to pen feeding and died rather than forage any more; of the hand-fed squirrels that laid up no nuts for the winter but bit the hands that had fed them when they no longer held food — these and other stories of nature attest to principles of biology which are as applicable to persons who won't use reason as they are to animals which haven't the faculty of reason.

LEONARD E. READ, *Victims of Social Leveling*

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POSITIVE ACTION A

International trade can help us win friends, influence nations, and improve our own productive and defensive strength.

SOME of the major problems we face today are those in the international arena. Among other things, our foreign aid program is directed toward assisting in the solution of our problems in foreign relations. Our agricultural program is bound by restrictions stemming from the necessity of avoiding actions which harm and alienate our allies whose markets are influenced by our policies in this sphere. Everywhere we turn, the international problem intrudes. Even a domestic recession in business and employment has international overtones since "when the United States sneezes, Europe catches cold."

Foreign trade is our most effective device for winning friends, influencing nations, and developing their resistance to Soviet blandishments and threats. Trade has the double advantage of being a device for accomplishing our international objectives, and at the same time increasing the employment and real wage income of American workers.

First, let us look at what trade does in accomplishing our international objectives. We are wooing other nations by many devices – foreign aid, military assistance, treaties of assistance, alliance and mutual defense, information services – all directed toward the end of enlisting their support in maintaining a free world and containing the totalitarian threat. However, our firmest friend in South America is one on whom we have exercised few of these means. Brazil is our stanchest supporter in the Southern Hemisphere. One of the important reasons for the support we obtain from her lies in the fact that we are Brazil's biggest customer. We buy more from Brazil than does any other nation, and with the dollars Brazil earns in this way she is one of our more important outlets for American

Dr. Brozen is a Professor of Economics in the University of Chicago School of Business. This is an excerpt from his statement of February 10, 1958, before the Joint Economic Committee.

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AINST COMMUNISM

YALE BROZEN

goods. These sales to Brazil are made by our more productive industries which, as a consequence, are able to provide employment at higher wages than workers in these industries could obtain if they were forced to turn to alternative occupations in other industries.

In North America, our firmest friend is Canada. Again, we have a stanch friend and ally for reasons other than foreign aid, since none has been extended. We are Canada's biggest customer. The ties arising from this relationship are an important element in creating this mutuality. Because we buy so much from Canada, and U.S. private enterprise invests so heavily in our northern neighbor, Canada is a major customer for the products of U.S. industry, thus supporting employment at high wages for many Americans.

Our ties with the United Kingdom rest in large measure on our trade with her. We buy English products in extensive amounts and, in turn, are enabled to find large export sales.

This list of friends whose regard has been fostered by our purchases could be extended. The important point is that trade creates friendships which are usually firmer than those based on other ties. In trade there is mutual gain to both sides. Where there is a mutual gain, a mutual regard usually follows.

The importance of trade as a means of winning friends and gaining allies has also been recognized by the communists. They courted Egypt by buying her cotton. They wooed India by offering to buy her hemp. They even are flirting with Brazil by making noises as if they might be interested in purchasing her coffee. And even as firm a friend as Brazil is unable to resist a small twitch of interest. The purchase of a country's goods is a mightier weapon than many appreciate.

This has exceedingly important implications for our trade policy.

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By reducing barriers to imports, we gain both in terms of accomplishing our international objectives and in terms of increasing wages, employment, and American national income.

The exports whose volume would increase are the very ones produced by the industries which are in trouble now. Machinery and construction and mining equipment – capital goods – are wanted by areas which now lack the means to purchase. These are now among our softest industries employment-wise.

An unappreciated aspect of international trade is the fact that it is our high wage industries which export abroad and compete very effectively with low wage labor abroad. They are the export industries because they are relatively our most productive. Since wages depend on productivity, they are also our high wage industries.

The industries which ask for protection are our relatively less productive industries. Because wage rates are driven up by the competition for labor of the very productive, export industries, the less efficient industries suffer, inasmuch as they are not productive enough to afford high wage rates. By getting tariffs imposed, foreign buying is reduced since foreign dollar earnings are cut down. The high wage industries are thus forced to cut back and release labor to the low wage industries.

Wage rates in the machinery industry (an export industry) in July 1956 were $91.96 per week. In the leather industry, one which asks protection, wage rates were $56.47 per week in July 1956.

Reduce Defense Burdens

Actions to improve international trade would reduce our defense burdens in three ways. The firmer our allies, the less the level of expenditures for national defense required to provide any given degree of security. Secondly, the higher our national income, the more capable we become in carrying the defense burden, and the greater our mobilization potential in case of war. Thirdly, an increase in trade strengthens our allies and gives them greater defense capability just as it increases our defense capabilities. To this extent, they become capable of carrying a greater share of the mutual defense burden.

If, in the process of reducing our own import barriers, we also succeed in obtaining agreement from other nations to reduce their barriers, then trade will increase all the more and our benefit will be even greater. We would benefit by a unilateral reduction of

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tariffs. This would pay out for us even though foreign tariffs were not reduced. But bilateral reductions give us even greater yields in trade, friendship, allies, and defense.

Aid through Trade

We can reduce tariffs, simultaneously cut foreign aid, and end by accomplishing more than the present foreign aid program. To illustrate this, we might consider the experience of Sweden after the English repealed their tariffs in the 1840's.

Sweden, before the middle of the nineteenth century, was an economically backward country whose people lived in circumstances which cannot be described. Suffice it to say that the condition of the average man was one of abject misery. Average income per person per *year* was much less than $50.00. This may appear to be absolutely unbelievable and shock those who are acquainted with modern Sweden. These statements are well-documented, however, and are common knowledge among Swedish economic historians.

What was it that brought about the economic revolution which occurred in the last half of the nineteenth century? In the 1840's England repealed her tariffs. At that time, England was the world's major market. She had a higher national income than any other section of the world. The opening of her markets to Swedish products awakened that country and brought it from feudal misery to the modern, prosperous country that it now is. The opening of trade presented economic opportunities to Sweden which attracted English, German, and Dutch entrepreneurs who sparked an economic renaissance. They converted natural capital in the form of forests and mines into factories, railroads, and power plants. The export of timber and iron to England developed a supply of businessmen who could create productive opportunities for employment and who were enabled thereby to obtain the capital to use in providing equipment and tools with which workers could produce abundantly and earn good wages.

Reductions in our own tariffs would similarly open markets to other areas of the world in need of development. It could similarly provide economic opportunities which would develop business and businessmen. These are the men who will provide the backbone of resistance to communism. If we want economic development abroad in ways which will win allies, this is the way to do it. • • •

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PRODUCERS, HANDLERS, CONSUMERS ASK—

Who Sets the Price?

M. E. CRAVENS

Competitive marketing allows anyone to set a price, but the customer is free to decide which is the best buy from the choices available.

OFTEN, someone says, "They set the price too high." He pictures a mythical "they" as controlling the particular product and, somehow, saying what consumers must pay for it. But, just how true is this picture?

Most folks have attended an auction. Perhaps it was the sale of pies or boxes at a bazaar, or the sale of farm products or household goods. Who sets the price at such auctions?

Many factors affect these auction prices, but they are finally determined by the amount and the quality of goods for sale, the size of the crowd, the bidders' supply of money, the mood of the occasion, and similar situations. Sometimes the auctioneer will announce that if he cannot get a certain price, the owner will not sell an item. If none of the bidders will pay this price, the owner has set a price that is above the market, and no sale is made. However, the owner has only postponed the sale — if he wants to sell — in hopes that at a later time he will obtain his price.

If the owner does not get his price, he may keep the item or sell it at a lower price. In either case, his setting the minimum price did not force a sale at the set price. The bidders placed their own value on the item.

This simple auction method of price setting is in many ways similar to that of most American businesses today. A good example is the supermarket.

The supermarket operator decides his retail prices — sometimes at near the wholesale or farm prices and sometimes at much higher prices. Anyone who has observed the relationship between retail and wholesale prices has seen this in both individual retail and chain stores.

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Setting Apple Prices

Here is how this pricing system works for an individual commodity. By December, each year, producers and food handlers can estimate fairly accurately the quantity of apples available for sale until the next crop. Few consumers are aware of the size of the apple supply. On the basis of experience, farmers and handlers who own apples decide to sell or not to sell at the current price. Their decisions may cause this price to fluctuate, according to the number of apples reaching the market.

The retailer bases his price on this wholesale price. The consumer looks at the retail price and decides whether or not to buy. If her purchases are at a rate too slow to move all of the apples from storage, handlers must somehow speed up the sales.

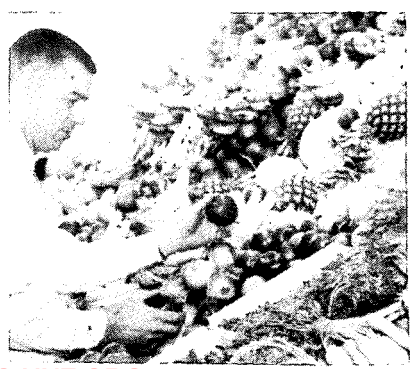
Usually a lowering of the asking price will bring a consequent increase in sales. It is a continual trial and error process in which the owner of apples keeps one eye on his apple stocks and the other on the rate of purchase by the consumer. He tries to get the highest possible price for his apples, but he must sell them at a price that will move the entire crop out of storage before another harvest.

Each day's price is tentative – it is based on opinions as to the current and future actions of the consumer. If she buys at a rapid rate, the price stays firm or rises. If she does not buy, or buys at a slow rate, the price will fall. These actions, multiplied by the millions of potential sellers and consumers, set apple prices.

This example shows briefly how prices are set for one product. The method is simply supply and demand at work. The individual consumer does not and cannot know all the factors of supply and demand for each product. However, her influence is the main price-setting force; her rate of purchase forces changes in price.

Price-Setting in Industry

This same basic procedure determines the price of almost every marketed commodity. It even applies to refrigerators or pots and pans, items for which the consumer believes the manufacturer



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sets the selling price where he wants it. The manufacturer does set the price at which he will sell his product, but he cannot force the consumer to buy. More and more manufacturers are basing their prices on accurate information about production costs and probable consumer purchases at prices based on these costs.

For instance, a company may estimate that at $22 a unit, it can sell 1,250,000 units. At $25, it could sell 1,000,000 units and at $28, it could sell 750,000 units. Of course, these figures are based on what the competition will probably do.

On the basis of estimated per unit costs of production and probable competitive prices, the company must decide at which price to start. Actual production costs may vary from the estimate. In any case, the company must decide on the price and production schedule it believes will best suit its aims.

If the company has correctly estimated the reaction of the competition and the customers to these prices, it will reach its goal. If it has estimated 1,000,000 unit sales at $25, and actual sales are only 750,000, something must change. The company may either sell the remaining 250,000 units at a loss or stop production short of its 1,000,000-unit goal. The decision may involve laying off workers and losing customers to other companies or to other products. In any case the company will either lose money or make less than its aim. Of course, if sales run ahead of expectations, the reverse would be true.

The net effect of this action and reaction is similar to that for pricing agricultural products, except for the length of time between the realization of the need for adjustment and the actual adjustment. The difference is largely in the degree over which the producer has control of his production.

Even though a single grower produced the entire United States crop, the method of pricing apples for a particular season would remain much the same as it is today. The apple producer cannot know until near harvest time how many apples he will market. On the other hand, the appliance producer can more closely control production schedules to meet changing situations.

In our competitive marketing system, anyone can set a price, but he cannot force the customer to buy, nor can he force others to set the same price. The customer is free to select what he, or she, considers the best buy from the many choices available. The exceptions to this principle are almost all due to governmental policies. • • •

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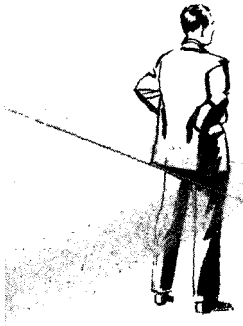

On the outcome of the struggle, these observers believe, hangs the destiny of men....

THE BATTLE FOR THE INNER MAN

ELMER T. PETERSON and NORMAN WHITEHOUSE

THREE HUNDRED years ago there was a fork in the road. One branch led out in the way of freedom. The other was the way of force.

Very few people at that time were able to identify the difference, for information was too incomplete. So do not infer that the people of 1651 chose up sides and proceeded to travel, one faction to the right and the other to the left. The momentous decision was not so simple at that time. Probably not one person in 10,000 was even dimly aware of that fork.

It is only now, looking backward from the perspective of three centuries, that we can realize how momentous was the divide.

The doctrine of force, as such, in 1651, was seen in a comparatively crude manner. Men set themselves up as political or economic tyrants and there was little to disguise the fact of such tyranny. Today the doctrine of force is infinitely more dangerous than ever, for it is not crude, easily discerned. It is often cunningly disguised under scores of seductive signboards and labels. These signboards and labels, in and of themselves, are so numerous as to add to the confusion. Seldom in all the saga of history has there been a more crucial necessity for man to know where he is and where he is going.

To do this, man must, at all costs, be clear in his readings of the signposts of the times. But signposts often become obscured, blurred, even turned around by impish mischief-makers. How, then, can modern man find his footing?

The year 1651 marks the crucial setting in the road. It was then that the thinking world first encountered a sharp clash of opinion over the critical question: should

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human welfare depend upon a responsible society or the responsible individual?

Upon the answer to that question hangs the destiny of man — the life of the free soul.

Two Paths

The great issues do not burst suddenly upon the world. Restless waves continually pass over the deeps of conscience, troubling us to take new appraisals of our patterns of human relations. There have been profound teachings by Moses, Jesus Christ, Confucius, Plato, Rousseau. The Beatitudes of Jesus, with their obvious laying of burdens on the individual, were epochal. It is only when there is a sharp clash between two contrasting philosophies, however, that we can discern the parting of the ways.

Follow briefly each branch of the road from that fork of 1651.

In that year a young Englishman, Thomas Hobbes, wrote a book significantly titled *Leviathan.*

Not long afterward, and in a great measure a response to *Leviathan,* another Englishman, a philosopher named John Locke, joined issue and thereby floodlighted the fork in the road.

True it is that long before 1651, hints had been dropped to the effect that the way ahead would be subjected to a fork, somewhat in the manner in which it happened. However, it remained for Hobbes and Locke dimly to foresee and academically to declare the basic issue which today divides the world, and countries and states within that world. No one could have fully foreseen that today the planet would be divided into two gigantic armed camps, both equipped with weapons of fantastic power beyond all human comprehension, or that the seemingly insignificant little fork would be the beginning of a cataclysmic world division.

The Way of Force

First consider the way of force.

While Hobbes seemed to pay some lip service to the principle of individual worth, he did not understand its implications. His favorite illustration was that of the beehive. Here he contended that the ideal State would be achieved by formal contracts or covenants, and would consist of a government, taking this power, once given, and using it without any further reference to those who had given it. So the State would be as ruthless as the amoral law of the hive. In short, the State would play the role of the Divine, so inevitably the individual, as such, would disappear.

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Hegel, a German philosopher, lived in the years 1770-1831. Taking up Hobbes' theme of the omnipotent State, he played the idea to its political limits, not alone vesting it with the attributes of the Divine, but declaring that the State *was* the Divine idea on earth. Hegel believed and declared that the individual should have no power except that which might be derived from the State. The soul of man was nonexistent in this philosophy of political power.

Rousseau, a predecessor, had held that man is born good and is corrupted only by a bad society – a theory that is persuasively described as "unscientific" by Dr. Leonard Carmichael, secretary of the Smithsonian Institution. Rousseau's followers believed that a golden age could occur merely by making violent changes in forms of government, without any hard struggle against evil by human individuals as such.

Fellow Travelers

Following eagerly, next along the roadway of ruthless force, Karl Marx and Friedrich Engels in the middle of the nineteenth century, became the inheritors of the Hobbes-Hegel theme. These ingrowing minds concocted the theoretical "rule of the proletariat." This vague entity was obviously not composed of individuals as such, but of an imaginary amorphous mass of impersonal authority. How utterly unrealistic such a system is may be grasped when we see that power, in such a climate, invariably gravitates to a single individual, irresistibly pulled there by a vacuum which an impersonal mass is unable to fill. So this system paraphrases the celebrated formula of Louis XIV by saying, "I am the people." Obviously, the people have no part except to accept whatever they are given – follow wherever they are led. To realize this fatal fact all one needs to do is to look at the record of all so-called "proletarian" dictatorships.

Moving into the economic sphere on this Hobbes-Hegel-Marx line, one can readily see the stress, whether conscious or otherwise, given by John Maynard Keynes, placed upon unlimited state spending and deficit financing. This theory exemplifies the totalitarian line, since its underlying thesis means that the State must be the source and sustenance of all human welfare. In America nationalized industry, dollar socialism, and creeping paternalism concurrently characterized the services and thought of those who were captivated by Keynes and blinded to the fatal flaws in his thesis.

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Again were seen the seductive blandishments of cunningly worded signboards. All of this, and more, has been alien to the American way.

The Way of Freedom

Now let us turn again to the fork in the road, as of 1651, exploring the other line – that of freedom.

After reading Hobbes' treatise on government, John Locke shook his head. He differed vigorously.

Locke, in his writings, held to the principle that freedom is the natural state of man – not only freedom *from* undue state interference, but freedom *to* assert man's unique talents – his very soul, which cannot be anything but individual.

Recognizing, as did Hobbes, the need of the State to regulate in certain spheres, for the good of the whole, he nevertheless drew the limits of such power. Here the break with Hobbes was crucial. Locke asserted that there are certain areas beyond the touch and reach of the State. Among those listed were the right to enslave, destroy, or impoverish man. Furthermore, after so limiting the State, he declared that those entrusted with the framing of the laws should not be invested with their enforcement. Here was one of the sources of the American three-part government, eventually legislative, judicial, and executive.

While the schism between Hobbes and Locke did not create any notable desire to read the road signs of the time anew, it did significantly lead to other cleavages on both angles of the fork until today, the cleavage is global. Politicians may preach appeasement, and there may be watered-down variations of the two main themes, but the basic division is eternal, unchangeable.

Applied in America

The greatest and most significant development after Locke was the American Dream, which had been stimulated in part by the pioneering of Thomas Hooker of Connecticut and the leaders of the Virginia Colony who developed the three-part government which became the pattern for the United States.

Outstanding spokesman was Thomas Jefferson whose distrust of the all-powerful and all-pervasive paternalistic State was unalterable. His speeches and writings abound in expressions of his trust in the soul of the individual man and his enormous solicitude for the freedom of that soul. Within obviously reasonable limits, he held that the nation that is least governed is best governed, and the best agency for good is the volun-

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tary benevolence of the individual.

Adam Smith carried the Locke theme into the realm of economics, starting with the key thought that the individual is the clue to all human relationships. Smith stressed the great powers of human ingenuity and genius.

The Declaration of Independence, of course, was the climax of the nascent American Dream. Its doctrine of separation from political overlordship was important, but now we see that its assertion of the essential individuality of the soul of man was even more significant. Here is another vantage point from which we can see one meaning of an event, long past, better than the contemporaries of that event.

Society or the Individual

The Beatitudes of Jesus concisely laid down the ideal social order, in which the responsibility of the individual was the complete theme and not a word was said about political kingdoms. The bee attitudes, in contrast, are concerned solely with what the hive State can do for and by means of the enslaved individual.

Shall we have a responsible society or responsible individuals?

In the former method, voluntary cooperation is first neglected, then rejected, and the State inevitably becomes what Hobbes declared — a mortal God. Compulsion replaces and then stifles voluntarism.

In the latter method responsible individuals, the varying talents inherent in each, are allowed to contribute richly to the whole. Here the Christian principle of voluntarism is allowed to play in an atmosphere of freedom and the initiative which is essential to all brotherly effort.

We Still Must Choose

The divergence of 1651, for a long time, may have seemed to be an innocuous academic diversion. Now, with all its accumulated implementations, it is seen to be world splitting and cataclysmic. At present the schism is defined by the words "communism" and "capitalism." But even if these words had never been invented, the irrepressible conflict would have manifested itself along the broad lines of separation.

The clue is the soul of man. Carry out the line from Hobbes to Marx, thence to modern ruthless dictatorships, and we see how well the way of force was camouflaged until it developed a Frankenstein monster that is difficult to stop when once set in motion.

The choice of 1651 is still with us. The battle is for the soul of man. • • •

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A Legend of Lagash

RALPH BRADFORD

The sun was hot in Lagash. On the plain
Outside the city, stretching far away
To where the great Twin Rivers reached the sea,
Heat waves arose, and fitful blasts of wind
Played dervish with the sands. Within the walls
That girt the city round, deep shadows fell
Where sacred shrines on terraced zikkurats
Were lifted toward the heavens. Deep canals
Brought water from afar and filled the pools
That cooled and slaked the city. Stately palms,
Growing within the garden of the king,
Whispered their monotone of rustling fronds
Above the song of man-made waterfalls.

It was the time of market. The bazaars
Were thronged with buyers from the city homes
And filled with sellers from the countryside.
Small farmers brought their melons, fowls, and eggs;
Fish stalls were redolent of finny food;
And butcher shops displayed the new-killed beef
That had been bred and fattened on the land
Around the city. Craftsmen, too, were there,
Each in his booth, with hand-wrought merchandise—
Slim shoes of finest leather, earthen jars,
Cookpots of metal sealed with melted lead;

This picture of a vanished time reveals dramatic parallels with some modern conditions. The author, who researched painstakingly, was dealing with certain known facts; but in portraying Lagash he had to use some poetic invention. Hence he found himself "dropping into measures," and finally wrote it all in iambic pentameter, as here presented. But the political conditions described are not fanciful. These were adapted from actual ancient inscriptions, as deciphered by Dr. Samuel Noah Kramer and other Sumerologists.

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Fine-woven fabrics; and anon a booth
Displayed exotic products from afar,
Brought in by merchant ship from distant lands.

Yet even in the hour of marketing,
Above the haggling and the shouts of trade,
Voices were raised in song, and there were heard
Soft strains of music from the temple walks,
And from the schoolrooms, and from many homes –
The sweet-toned rippling harp, the tinkling lyre,
Reed instruments and drums and tambourines.
For these were happy people, and they lived
In joyous rhythm with the sun and stars,
And built their lives upon a gay response
To nature's promptings and the joy of living.

Thus went the life of Lagash, in an age
So distant and remote that time and sand
Would wipe it out and cover every trace.
The terraced temples and the palaces,
The walls and streets and turrets and canals –
All these would vanish, and the very name
Of those who toiled and planned and builded them
Would be forgotten; and the waves of time,
Century after century, would pound
On that forsaken city; and the wind
Would blow the hot sand from the desert waste
And pile it in the fountains and the streets
And on the fallen rooftrees; till at last
Nothing was there but drifted dunes that held
Their secret while the slow millenniums passed.

And when some forty centuries were gone –
Four thousand years and more of creeping time! –
Behold, men came and dug and thrust away
The obliterating sands and brought to light
The streets and gardens and the palace walls,
The ruined temples and the broken fanes.

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That once had been a city. And they found
Statues of men and women, wrought with skill,
So that the semblance of those vanished men
Is known to us. But more than all beside,
The diggers found the record of that people,
Inscribed on tablets made of clay and baked
In sun or fire – the wedge-shaped characters
That were at last interpreted, to yield
The story of those ancient men and women.

The gods were central in their scheme of things:
Enki, the god of water; Ki, of earth;
Enlil, who ruled the air; An, lord of heaven;
Inanna, who controlled the tides of love;
And grim Dumuzi, who was god of death.
All these were ancient gods, and universal
Among the folk who dwelt Between the Rivers.
But one was closer to their hearts and lives –
Ningirsu, the particular god of Lagash.

And as the gods were dominant in their lives,
The temple was the center of their city,
Lifting its terraced stories toward the skies,
Even as the churches of a later age
Would raise their spires above the narrow streets
Of medieval towns. The temple rulers,
The Sangas, who were ministers to the gods,
Were potent also in the state's affairs,
And with the freemen of the city chose
The man who was to rule them – the Ishakku.

But as the desert decades multiplied,
A bold Ishakku, selfish beyond the rest,
Avid of power, ambitious that his name
Should live beyond him in a dynasty,
Determined that his own son should succeed him.
And in a moment of unwariness,
Or of participant venality,

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Sangas and freemen let the matter pass,
The kingship was declared hereditary,
And so Ur-Nanshe's name became dynastic.
What followed was as certain as that night
Will follow day. The kings became ambitious
For more and greater power. To the north
Lay Umma, rich and potent city state,
The capital betimes of all Sumeria,
And then as ever strong in rivalry
Against the Lagashite economy,
And strong in might against Ur-Nanshe's arms.
Umma was more than rival; she was threat –
Threat to the commerce and the growing wealth
Of Lagash and its people – and its kings!

The Lagashites must be prepared for war.
The border guards must be increased. The king
Must have an army capable to meet
The best that Umma might equip and train.
The city walls must forthwith be rebuilt
And strong new bastions added; all the arts
And implements and strategies of war
Must be employed to strengthen Lagash arms,
And guard the sacred temple of Ningirsu.

War was the next step, and the Lagashites
Swept northward like a scourge across the land
To conquer Umma; and there came a time
When one bold ruler of the Ur-Nanshe line
Would bring all Sumer under vassalage!
Great was Ningirsu, patron god of Lagash!
Great was the king, the scion of Ur-Nanshe,
Rivaling for a time the great Gilgamish,
The legendary hero of all Sumer.

But all things have their price; and Lagash paid
Full measure for her triumph. For to raise
The needed armies and secure the arms

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And food and clothing to supply their wants,
And to support them in the field, and pay
The soldiers' wages, and defray the cost
Of transport, and to fortify the walls –
All this imposed upon the treasury
A vast expenditure that never stopped.
The spoils of conquest that enriched a few
Were never channeled back to pay the cost
Of conquest, or reduce the staggering debt
That ever mounted as the conquests spread.

Under the stress of war no one complained.
Their lives were forfeit if their armies failed,
And Umma was not merciful. They paid
The mounting taxes – and watched hopefully
The northward roads for the next messenger
Who should bring news of added victory.
The good news came – and taxes rose again!

Moreover, temple property was seized,
And lands belonging to the god Ningirsu
Were pledged to meet the costs of war. And then –
The wars were finished, and the men came home,
Those who remained alive; and with them came
An army of the maimed, who must be cared for.
And in addition there had come to be
Another army of the king's retainers,
The palace coterie, who throve on power
And had their hands upon the public funds
And lived by eating from the treasury.

So potent had these grown that even the king,
If he had been disposed, could not have stopped
Their depredations, which were all excused
As necessary functions in the line
Of public duty. All the subtle web
Of state controls that had been spun about
The lives and occupations of the people

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Were lucrative emoluments for those
Who lived them up. New taxes were devised
To seize the peoples' earnings. Men of wealth
Were stripped and forced to sell their costly homes.
The merchants, too, were victims of duress;
And on the farms the tillers of the soil
Were shorn by taxes as they sheared their sheep,
And ate their bread despondent. Came a day
When money-taxes would no longer meet
The appetite insatiable that gnawed
Within the grotesque body that had grown
Out of a monstrous blend of kingly power
And unrestrained bureaucracy, let loose
Among a suffering people. Ages later,
Upon the tablets that the desert sand
Had covered through four thousand years and more,
The truth was seen and read. The ancient scribe,
Prodding his stylus angrily in the clay,
Had set it boldly down for all to see:

The inspector of the boatmen seized the boats.
The cattle, too, at pleasure of the king,
Were seized; and if a countryman brought in
A white sheep to be sheared, a fee was levied –
A fee of five good sheckels for the king.
And if a poor, unhappy man and wife,
Wracked by domestic infelicity,
Were driven to divorce, a double fee
Was then imposed: five sheckels for the king,
And one to pay his vizier. And when
The fishermen brought in their catch, behold
An officer whose daily task it was
To inspect the fisheries, seized, instead, the fish!
Or if a man who dealt in sweet perfumes
Devised a new scent, for his industry
He was assessed a triple penalty:
He must disgorge five sheckels for the king,
Another sheckel to the vizier,
And still another to the palace steward.

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The king then seized the temple and its lands,
So that the pious and indignant scribe
Lamented that the oxen of the gods
Were used to plow the onions of the king,
And that the god's best fields were now the patch
Where grew the king's cucumbers! And the priests,
The temple Sangas or administrators –
These had their oxen and their donkeys seized;
Their grain likewise was taken for the king.

And even death itself brought no relief;
For when the family of the dead were come
With their beloved burden to the place
Of burial, lo, the henchmen of the king
Were waiting at the cemetery gates
To levy their demands of bread and beer,
Tributes of barley – and at times to take
Even the household furnishings of the dead!

The houses of the king (so wrote the scribe)
The houses of his harem, and the fields
About his harem, and the nurseries –
These crowded one another, side by side.
And in a final bitter mood he noted
That in the state, from one end to the other,
There were the tax collectors to be seen!
And save for phrasing that is quaint and simple,
What is the difference in this far cry
Out of the distant past, from that which rises
In every land and age in which the state –
Whether it be a king, a parliament,
Or pure democracy – devours the substance
Of its own people in the name of progress?

And then, as always in the lives of men
When fate has brought their tide to lowest ebb
And misery compounded is their lot,
A leader rose in Lagash – a young prince,

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Not of the ruling family, but schooled
In all the old traditions that had made
For happiness and progress. He devised
A revolution, and he led its armies
Against the entrenched despoilers, and deposed
Ur-Nanshe's dynasty; and in its place
By popular acclaim he set himself
To be the head of state – a king whose reign
Should be devoted to the restoration
Of all that had been taken from his people.

His name was Urukágina. He lived
Two thousand years and more before the dawn
Of our own Christian Era; and he gave
New meaning to a principle of life
That men had cherished, but had never named –
The principle of freedom. Hitherto
Valid assumptions, never formulated,
Had been implicit in their social patterns:
That, under God, each several man belonged
To his own self; and that he had the right
To claim and use the fruit of his own labor;
That he could come and go as suited him,
Could loaf or labor, farm or sail the seas,
Teach, carve, paint, fish – so long as his pursuit
Or lack of it wrought injury to none,
And left all others also undisturbed
In their employments. They had found, indeed,
That each must make concessions for the sake
Of peace and safety, and that none could live
Wholly alone; and for the benefits
Of urban life – for streets and for canals,
For armies to protect them from the world,
And for police to guard them from each other
(Since they were men, too) – for all this they gave
A portion of their substance, called a tax;
And this they looked upon as right and fit
Because it gave them what they asked of life,
And they were happy in it, and content.

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But this was lost to them, what time Ur-Nanshe
And his descendents drained the country dry.
And so, deprived of what they had possessed,
A thing intangible, they could but pray
To great Ningirsu that he would restore
That former way of life which until now
They had not thought about, or valued highly,
Accepting casually and as their due
A thing as precious as the air they breathed.

And then came Urukágina, aflame
With righteous anger; and the people heard
With unbelieving joy his words of wrath
Against their wrongs; and when he called to arms
They rushed to join him and to spend their lives,
If need be, to restore the former ways
And rid the land of tyranny. The king
Was overthrown. The new king, in his place,
Began the restoration; and the scribe,
Happily scoring wedge-marks in the clay,
And using the repetitive formula
Common to ancient writings, set it down
That one by one the wrongs which he had listed
Were all removed and restitution made:
The boats and cattle were no longer seized;
The heavy, ruinous taxes were repealed;
Industry and initiative and skill –
These were no longer stupidly penalized;
The profaned, sacred temple was restored,
And life in Lagash went its wonted way.
Nor was this all; for Urukágina
Forbade the rich to treat the poor unjustly,
Curbed the rapacity of tax collectors,
Revoked the perquisite of high officials
To pluck at will fruit from the poor man's tree,
Cleaned out the dens of murderers and thieves,
Banished the usurers – and made a pact,
A special covenant with the god Ningirsu,
That he would not permit the men of power,

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No matter what their station in the realm,
To victimize the widow and her orphans.

Truly a wise and heartful ruler, this –
And yet he had his share of vanity,
His need for recognition, his desire
To be remembered for his noble deeds.
And like his peers before and after him,
He told the busy scribe to set it down
For all to read – what marvels he had wrought,
What evils he had righted, and withal
How good and great was Urukágina!

And in the process something new was added.
A new word concept first was introduced
Into man's records. For the eager scribe,
Seeking to dramatize the mighty deeds
Of Urukágina, at last set down
As culmination, that he had *established*
The freedom of his people. Men who know
The antique wedge-script used in ancient Sumer
Render the phrase in different ways. Some say
It *could* mean "a returning to the mother" –
A reference to the universal notion
Of intra-womb content and blessedness,
Whence comes the concept of the Golden Age.
But in the context of the narrative
Such imagery might well be rendered "freedom."
Others believe the old Sumerian symbol
Has the Semitic meaning of *anduru* –
Freedom from taxes: but that still is "freedom."

Clearly the wedge-shaped symbols meant to say
That Urukágina had freed his people
From tyranny and seizure, and the weight
Of ruinous taxation, and had set
Their feet upon a better way of life,
Known to their fathers and to them denied.
Truly he had established them their freedom.

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Thus in that ancient day, so long ago
That empires have arisen and declined
And gone to ruin with the centuries,
A word was written, or a symbol used,
An ideogram, or an agglutination
Of earlier symbols, or a new-made sign –
No matter; in the slow advance of man
Here was his earliest record on the theme
Of freedom. It was not a nice abstraction,
Not speculation on what freedom means,
No mention of this freedom or the other,
As though it were composed of several parts;
But freedom as men knew it in their lives:
Freedom to be and do, freedom to live
In dignity and decency, and go
Unhounded by the state or any man!
Freedom from state-extortion; freedom to work
And know that what they earned would be secure;
Freedom to make or build or to create,
And know that they would not be penalized
For their inventiveness or skill or genius;
Freedom to grow, unpunished for their growth!

The sun was hot in Lagash, but canals
Brought water from afar, and stately palms
Whispered their monotone of rustling frond
Above the song of man-made waterfalls.

And as the sun sank lower, and the night
Began to brood upon the temple walls,
Voices were raised in song; and there were heard
Soft strains of music on the scented air.

For these were happy people, and they lived
In joyous rhythm with the sun and stars,
And built their lives upon a gay response
To nature and their gods – for they were free!

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A QUESTION OF DEFENSE

How many jobs should the policeman have?

PAUL L. POIROT

WE'RE a fairly independent lot in our community, though perhaps no more so than you and your neighbors. We have certain common interests, of course, but there are differences, too, in the way we earn a living and spend our earnings, how we think and behave. I don't mean that we're independent to the point of self-subsistence or isolation, or anything like that. In many respects, we rely heavily on the cooperation and help of one another.

For instance, when the hot water line in our home sprung a leak, we called the plumber. The electrician hooked up the new lighting fixtures in our living room. The garage mechanic installed new brake linings in our car. The surgeon at the hospital removed our son's tonsils. We look to the milkman, butcher, grocer to help get food from the farm to our table. And we could extend almost indefinitely this list of goods and services we get from others through peaceful voluntary exchange. It's true that each of us who more or less specializes in some field of production depends heavily on trade with other specialists; but we're independent in the sense that each is free to choose from among a tremendous variety of competing goods and services available for his consideration, and he isn't really obliged to buy any of these.

On the other hand, there are some things you have to buy in our community if you want to live there. You can't sit back and refuse to help pay for the roads and streets, for example, or the government schools, or the services of the police department.

Ask us why we don't leave such things as schools and roads and policing to competitive private enterprise, and you'd probably get as many answers as there are local residents. Some would contend that government operation in each of these fields is an absolute necessity – that there is no alternative. Others might defend them on

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grounds of convenience or practicality. And at least with respect to schools, some might even express a reasonable doubt as to the propriety of government operation. The several private schools in the community, supported voluntarily by persons who also pay school taxes, reflect their faith in education by voluntary means.

Of all local governmental operations, the police function of protecting life and property undoubtedly comes nearest to gaining general and unanimous approval. I believe that most persons in the community could give a reasonably logical explanation of the reasons for codifying and organizing their individual rights of self-defense into a societal police force financed through taxation. This communal design for preserving the peace, maintaining law and order, protecting the lives and property of the weak and meek against the aggressive exercise of brute force or deception, is widely accepted as a necessary requirement for the freedom of the individual within society.

So, we maintain an organized police force – to protect life and property – and citizens generally are grateful for the security afforded by this agency comprised of trusted men from within their own community. We tend to take this service for granted, give little thought to it, find it somewhat difficult to recall specific instances of actual police activity in defense of life or property.

Most of us have little comprehension of how and where policemen, often unseen, quietly perform the defensive and inhibitory function assigned to them. If we were to judge solely from what meets the eye – from the policemen we see at busy intersections or pedestrian crossings, or in patrol cars, directing traffic or checking parking on government streets and highways – we might conclude that traffic control has come to be their most important problem. And, in some cases, that may be true. If so, how much of the reason can be traced to the fact that our protective agency has gotten into the business of transportation, the building and maintenance of roads and parking areas? How come this departure from the theory and the tradition of a community police force that was to be limited in scope to the defense of life and property?

Is it possible that even the local policeman, whom citizens can observe and check most closely, is actually spending less effort in protecting the lives and property of individuals than in directing how the lives of peaceful persons

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are to be lived and how they are to use the property they have earned and saved?

If the protection of life and property, the preservation of peace, is the prime purpose of an organized community police force, do we not jeopardize the peace and weaken the protective force when we begin assigning to policemen an ever-lengthening chain of duties and responsibilities for managing a highway system, caring for our children, supervising government parks and housing projects and relief programs and miscellaneous activities of all kinds? At this rate, how much longer before we'll be calling a policeman rather than a plumber to fix a leaky faucet? Or to do the electrical wiring, or install new brake linings, or perform a tonsillectomy, or deliver the groceries — and collect the taxes levied against each and all of us to cover the costs of added government "aid" and intervention? In that event, may not the police force itself become the greatest menace to the lives, the liberty, and the property it was supposed to protect?

The trend we may perceive in the operations of the local community police force also has broader implications. What of the protective governmental arrangements at the state level? And the national level? What are the prospects of efficient national defense from a national police force grown so big that the conduct of its multitudinous operations requires approximately a fourth of the productive effort of the entire population — in addition to the costs of state and local police action? Indeed, what happens to the very definition and character of the national defense operation as government grows in this fashion? Is it still to be primarily the protector of the lives of 170,000,000 individuals, their personal freedom of choice, and security in their possession and use of privately owned property? Or, as the Welfare State expands, does national defense change in character so that the government concentrates largely on the preservation and perpetuation of its own institutional bureaucracy and the special interests of the political pressure groups that control the balance of power?

No conscientious American citizen really enjoys raising such questions with respect to his own government. These are unpleasant questions, and it is regrettable that they are made necessary by the national and international situations, by the advance of compulsory collectivism, and by the precarious status of human liberty

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in the world and in the United States of America.

Just what is the character and objective of the national defense of these United States? If the question were posed with regard to Russian defense, does anyone seriously doubt that the Russians are mainly defending their State – the coercive apparatus of collectivism – at the expense, if necessary, of the life, the liberty, the property, and the sacred honor of every last Soviet subject? And a moment's reflection must reveal that national defense will necessarily follow that same pattern in any communistic or socialistic or advanced Welfare State where a majority of the citizens have lost the faith and the right to practice self-control in the peaceful management of their own lives and their own private property.

What, then, is to be the nature of the defense program of the United States? Is it to become more and more a program of preserving the expanding bureaucracy – a program to be designed and managed, without limitations, by that same bureaucracy? Or is it to give consideration to the defense of the life, the liberty, and the property that lone individuals most cherish? What is it that you yourself would defend? Would you willingly offer your life, your property, your sacred honor for the defense of the Welfare State?

Does the possibility that the Moscow power center may attack and destroy the comparatively free way of life we've known constitute a serious threat to your peace of mind and body? If so, are you fully satisfied with the kind of police protection – national defense – that exists or is in prospect at the moment? Are we expecting too much, even of the federal government of the United States, when we ask it to build rocket weapons but in the process to pay obeisance to the leaders of organized labor, to cure the depression, to dole out "cheap" electricity to millions of voters, to pay unemployment compensation to 5 or 10 or 15 million idlers, to build houses and schools for adult and juvenile delinquents, to store millions of bales of cotton and bushels of grain on behalf of farmers?

In short, are we expecting efficient protection from a police force that is so busy doing our plumbing and wiring and delivering our groceries that it has lost all competence for defense? If so, isn't it time to whittle the defense establishment back toward the only purpose for which it can ever be justified – just defense of life and of the opportunity to sustain life – nothing more? • • •

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John Chamberlain

THE CREATIVE PROCESS IN INDUSTRY

IN the middle of the nineteenth century John Stuart Mill, who was capable of taking gloomy views in sunny prose, paused to reflect on the "exceptional" nature of the cotton textile industry. For years, he remarked, textiles had benefited from continual freshets of technological improvement. As a result, England's economic well-being had kept pace with its growth in population. But Mill, surveying the industrial landscape, thought it unlikely that the experience of the textile trade would be repeated very often in other lines.

Since Mill's time, other commentators have been afraid that new, so-called "ladder" industries would not be forthcoming to haul the human race out of incipient stagnation. During the depression of the 1870's in America there were predictions that the age of invention was nearing its close. In the 1930's the Tugwellians among the New Dealers talked of a "mature economy" which would fail in the nature of things to generate sufficient employment to keep free capitalism going.

Reflecting a predominantly pessimistic strain of thought, economists have often mistaken their "equilibrium" models for a reality that knows no equilibrium. They have thought of profits as something that must tend to disappear as "perfect" competition takes over in all possible fields of endeavor. But the one "constant" of the past century and a half has been change, even in fields where "know-how" is as old as capitalism itself. The textile industry, which is still changing (creaseless fabrics, the Sulzer loom), was merely the first of many "ladder" industries which have continually transformed society. An economic model, to be a true reflection, must allow for heavy infiltrations of disruption. And the pace, the incidence, of disruption must remain a largely unknown quantity unless economists can isolate the causes of invention itself.

When one must allow for an unknown which can't be expressed even in terms of likely probabilities, the scientists must yield to the hunch player, the artist, the man of intuition. But the scientists

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among the economic prophets haven't yielded; they have merely left the unknown out of account. Reflecting on this singular state of affairs, the three authors of *The Sources of Invention,* John Jewkes, David Sawers, and Richard Stillerman (New York: St. Martin's Press, 428pp. $6.75), begin their book with a raking broadside directed at most of their economic brethren. "Future historians of economic thought," they say, "will doubtless find it remarkable that so little systematic attention was given in the first half of this century to the causes and consequences of industrial innovation. Material progress, it had long been taken for granted, was bound up with technical advance and technical advance in turn, with change, variety, and novelty; but whence this novelty, how closely it was related to rising standards of living, whether and how it might be stimulated or stifled: all this ground remained largely untrodden by the economic historian or the economic theorist."

Seeking to isolate the reasons for the oversight, Jewkes and his collaborators note the complexity of the subject. But the way to deal with complexity is to plunge in and break it down. Jewkes and his team admit to their lack of training in the understanding of technology and invention. They don't know whether there is an "optimum rate" of invention or not. But since nobody else has volunteered to do the job of exploring the "sources of invention," the Jewkes team has taken the bit between its collective teeth. The result is an extremely exhilarating book which assembles many materials for a first go at generalizations that must be made if economics is to allow for the innovator who, at periodic intervals, blows every equilibrium sky high.

Some Fallacies Exploded

The Sources of Invention begins by questioning the big cliché of the moment, that under "modern" conditions invention must increasingly tend to issue from giant corporate laboratories. While the authors refuse to dogmatize, they assemble plenty of evidence that the independent inventor is still extremely important. Conversely, they make mincemeat of the cliché that the inventor in Victorian times tended to be an ignoramus from a garret or the back room of a country tool shed. The earliest inventors – James Watt of the steam engine, Eli Whitney of the cotton gin and the first American venture in making interchangeable parts,

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W. H. Perkin of the pioneer aniline dye – moved in good university society, kept up with scientific development, and compared notes with other pioneers in the industrial arts.

By assembling fifty modern case histories (which they publish in Part II of their book) the authors make it fairly apparent that twentieth century invention differs hardly at all from invention going back to the time of James Watt and the many men who turned spinning and weaving from a cottage industry into the first approximation of the modern factory system. To begin with, even in days of big corporations invention depends not on a team but on a brain capable of taking a leap which no other man has ever succeeded in taking before. A team can do the work of testing and elaboration once someone has shown it the way to go. But the point which stands out clearly from *The Sources of Invention* is that the inventor *is not an organizable person.* He must be free to question, to pursue unlikely looking leads, to go off at a tangent, to be uncooperative if he thinks he knows better than the other fellow. As W. I. B. Beveridge has said in *The Art of Scientific Investigation* (quoted by Jewkes and his colleagues), "No one believes an hypothesis except its originator . . . a corollary . . . is that a scientist works much better when pursuing his own hypothesis than that of someone else. . . ."

The authors of *The Sources of Invention* do not question the uses of large-scale corporate research. They pay generous tribute to the Du Pont Company for pouring $6 million into research and $21 million into plant investment to produce nylon. They praise General Motors for its work on antiknock gasoline and safe refrigerants. They tell the story of the development of crease-resisting fabrics by the British Lancashire textile firm of Tootal Broadhurst Lee. (Incidentally, Tootal Broadhurst Lee is not a particularly big company.) Invention and inventors would not do very well if corporations weren't there to supply development funds, and to provide broadscale testing and pilot plant manufacture. But this is not to say that inventions can be easily commanded "on order" by the big concern.

Du Pont brought nylon into being by a massive attack on the chemistry of polymerization. But the Du Pont Company did not bring nylon into being by "team" invention carried out by due process of administration. Du Pont "got" nylon because it had the

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good sense to hire Dr. Wallace H. Carothers, a 32-year-old chemist who had already given a lot of thought to the structure of substances of high molecular weight at Harvard. Moreover, luck played its part in Carothers' discovery that molten polymer could be drawn out into a long fiber that would greatly increase in strength and elasticity if it were "redrawn" again after it had cooled off.

As for General Motors and its antiknock and refrigeration discoveries, it was a case of hiring a known inventor and letting him continue as he had been doing all along. "Boss" Kettering was a law unto himself at General Motors, and it was this stanch individualist who had hired Thomas Midgley, Jr., a mechanical engineer, to help him before GM bought Kettering's Dayton, Ohio, company. Going to GM with Kettering, Midgley proceeded to "get up" chemistry for himself. Thus we have the odd combination of Kettering, an electrical engineer, Midgley, a mechanical engineer, and GM, an automobile company, making great chemical discoveries that one might logically have expected to come from oil companies or Du Pont.

What Jewkes and his team pound home without even half trying is that it is the free-wheeling individual, not the administrative team, that is the primary source of invention. Major Armstrong, a lone wolf, developed the famous feed-back circuit which made modern commercial radio a possibility — and it was the same Armstrong who developed frequency modulation. An Englishman, Frank Whittle, who found it impossible to gain the support of either the British Air Ministry or aeroengineering firms, brought the jet engine into being before Rolls Royce and the government took it over. Individual inventors were responsible for the safety razor, the self-winding watch, continuous steel casting, the zip fastener, the Sulzer loom (which does away with the clumsy shuttle of tradition), color photography (two musicians carried this through in a kitchen and between stops on a concert tour before Eastman Kodak hired them), synthetic light polarizers, penicillin and streptomycin, the cyclotron (the first cyclotron was a homemade contraption of window glass, sealing wax, brass, a clothes tree, and an ordinary kitchen chair). Indeed, after Jewkes and his mates get through with their voluminous run-down, it is hard to see how the theory of the inevitability of "group" or "administrative" invention by great companies in the "oligopoly"

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category ("few to manufacture and sell") ever came into existence in the first place.

Being cautious men, Jewkes and his colleagues fight shy of the all-inclusive statement. Nevertheless, it may safely be said that *The Sources of Invention* proves the case for the free man whether he works for a big concern, the small company, or all by his lonesome self. As for the economic effects of freedom, the upshot of the Jewkes-Sawers-Stillerman work is that business upturns will take care of themselves as long as invention and technology are let alone. John Stuart Mill needn't have worried about the future in 1850; and, barring interference by politicos, we needn't worry about it now. • • •

Citadel, Market and Altar. *By Spencer Heath.* Baltimore: The Science of Society Foundation, 1957. 259 pp. $6.00.

FOR MORE THAN two decades, Mr. Spencer Heath has served, unheralded, the cause of freedom in America. Now, with *Citadel, Market and Altar,* this keen and sprightly octogenarian offers his *magnum opus* after what has been a virtual lifetime of thought and effort, following his retirement as an eminent aeronautic engineer and patent attorney.

Heath's most remarkable quality is the striking originality of his thought; for he has carved out an elaborate philosophic system much of which is his own, and he has pushed these ideas on liberty beyond their usual limits to new and exciting frontiers. He is perhaps the first scholar since World War I to advocate the supply of defense and other "public" services by voluntary methods instead of coercive taxation. Not only that. He offers a plan for voluntary finance of defense which is unique, and which never occurred to the eminent nineteenth century sponsors of "voluntaryism."

Heath arrived at his plan in the process of emerging from the Georgist movement, of which he was a prominent member. The Henry Georgists believed that all "public" services should be financed by a single tax on land (especially urban) rent. Heath, accepting the theory that public services should be paid for by rent, came to ask the question: Why not supplied by *private* landlords rather than by government? From this question came Heath's

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new theory of "proprietary administration": that all the landlords in a given city should pool their assets into one city-wide corporation which would own all the land and supply public services to the tenants for their rent charges. Taxation and all the other trappings of government would then disappear, and the rights of persons and private property would become truly inviolate. The only voting would be through the shareholders' democracy that prevails in any corporation, with landowners voting in proportion to their shares in the corporate entity.

It is questionable whether the free market, if no longer subject to taxation, would resolve its remaining problems in precisely the manner Mr. Heath proposes. His proposal is, at any rate, a challenging one, and it deserves serious consideration.

There are many other important contributions in this book. Among them is Heath's conclusive demonstration that landlords perform a highly worthy and important function: that of allocating land sites.

Some of the best nuggets are buried in the appendix. Note Heath's unsurpassed definition of *monopoly*:

> Monopoly exists when government by its coercive power limits to a particular person or organization, or combination of them, the right to sell particular goods or services, and thereby abrogates the right of any other person or organization to compete ... Neither bigness nor singleness can be injurious, so far as it results from the unforced preferences of purchasers and freedom of competition prevails.

MURRAY N. ROTHBARD

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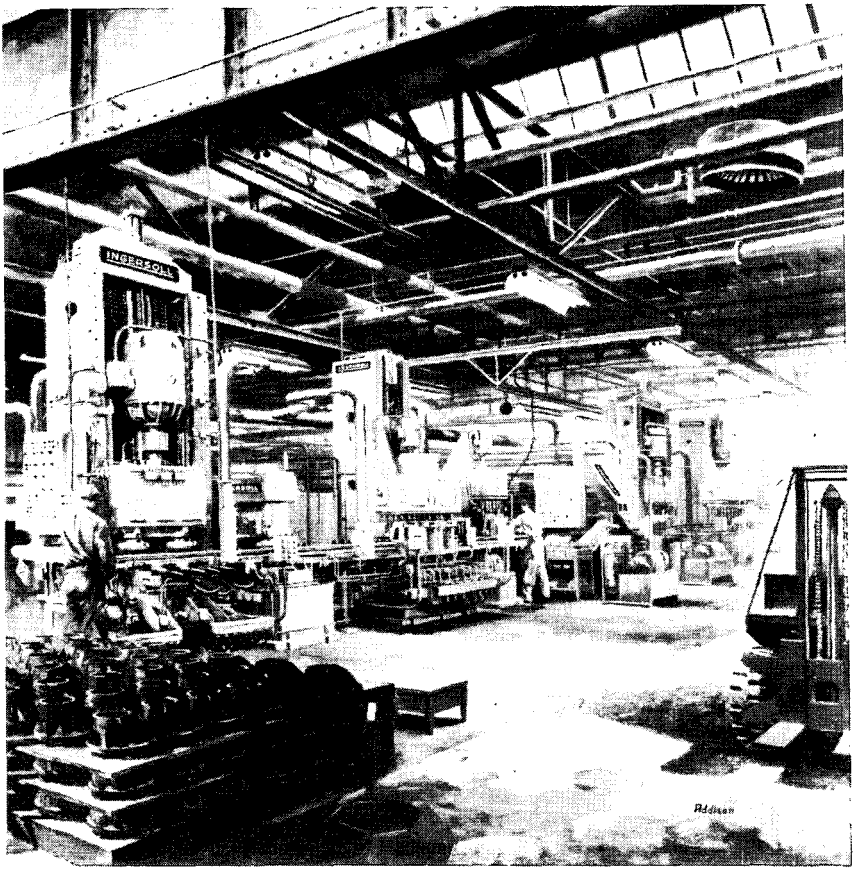

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REPEATING THE TRUTH

TRUTH must be repeated again and again because error is constantly being preached round about us. And not only by isolated individuals, but by the majority! In the newspapers and encyclopedias, in the schools and universities, everywhere error is dominant, safely and comfortably ensconced in public opinion, which is on its side.

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